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ENGLISH EDITION

finweek

28 January 2016

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from the editor

JANA MARAIS

Don't tire of reading about China's economic troubles just yet – the impact on your pocket may get a lot worse in the coming months.

While much attention has been focused on China's slowing growth (it reported a rate of 6.9% in 2015, its slowest pace in 25 years), the smart money seems increasingly concerned about its ballooning debt levels and the potential impact of a Chinese credit crisis on the global financial system.

Just as economists are taking China's official GDP growth figures with a pinch of salt, there is also scepticism over China's official debt statistics. What we do know, however, should be sufficient to raise some red flags: China's total debt (including its unregulated shadow banking industry), according to a 2015 McKinsey report, has nearly quadrupled between 2007 and mid-2014, when it totalled $28tr. At the time, McKinsey estimated China's debt as a share of GDP at 282%, larger than the US and Germany.

With a global economy that is still struggling to recover fully from the fallout of the US housing bubble and resulting global recession of 2008/09, the concern is not so much the total value of China's debt, but rather the pace at which it continues to grow. George Magnus, a senior economic adviser to UBS, wrote in a recent column in the *Financial Times* that the pace of debt accumulation in China has actually been picking up in the last one to two years, despite the slowing economic growth.

While the Chinese government will continue to spend its substantial resources to help prop up the Shanghai market and stimulate the economy, the cracks are showing. Brace yourselves, as China's troubles will continue to contribute to the volatility we've been seeing in global markets – particularly since the Shanghai stock market fell 30% over three weeks in June/July last year.

Matter of fact

In our cover story in the 14 January edition, we described Investec as a private bank which owns an asset management company. Investec is a financial services group that owns a private bank and an asset management firm that is operated independently from the bank. ■

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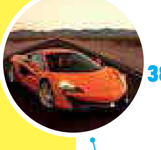

On the money

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By Jannie Rossouw and Carina Rossouw

FINANCIAL STATUS

Why reaching and staying middle class is a lifetime challenge

Those who are not born into the middle class aspire to reach and maintain this status. However, achieving middle-class status is one thing, but retaining it and ensuring one's financial future requires careful planning and hard work.

Many people are born into the middle class, but for those born in poverty the lifetime challenge is reaching middle-class status.

The definition of middle-class status is a challenge in itself. People in poverty are often described as those surviving on less than $1.25 (some R20.00) per day (2005-values; $1.90 or R30.40 in 2016-values). But that doesn't imply that middle class simply starts just above this threshold.

The wealthy are easy to describe. Wealthy people have lots of money and lots of things. Naturally the wealthy will have their own ranking among and between themselves.

Likewise there are different categories of "middle class". In the US an annual household income ranging from $25 309 (R400 000) to $144 996 (R2.3 million) will probably place people in the lower to upper middle-class range.

Using 2008 data, economist Justin Visagie describes the SA middle class as a household of four persons with a total household income of between R5 600 and R40 000 per month after direct income tax. The corresponding values for 2016 are R8 950 and R64 000. This covers the range from lower to upper middle-class as in the US.

A general definition for a middle-class existence in SA is discretionary expenditure. Middle-class families can typically buy the things they need and will have money to spend as they please after they have purchased all necessities.

If this description is accepted, it is clear why people in poverty surviving on R30.40 per day (R3 648 per month for a family of four) desperately aspire to reach the middle class, albeit then the lower middle class.

But with reaching middle-class status come new challenges. Middle-class status results in a particular lifestyle. A household equipped with gadgets and equipment using electricity (fridges, TV and the like). A motor vehicle. A better house and better schools.

Simply put: in a middle-class existence, expenditure follows income. More middle-class trimmings follow a middle-class existence. What was good enough before is no longer good enough. And definitely not good forever.

[T]he average middle-class South African is two pay cheques away from financial hardship.

And with what is good enough, often comes debt. Middle-class people borrow money to purchase things associated with middle-class existence.

The first challenge to stay middle class is therefore to retain a middle-class job. It is unfortunately true that the average middle-class South African is only two pay cheques away from financial hardship.

There are many examples of middle-class people living above their means. One is buying expensive and flashy cars. The neighbours must see that middle class has arrived.

Another is neglecting to budget annually for house maintenance. The cost of maintaining a house inevitably amounts to 1% per annum of the replacement value of that house. A simple calculation shows that a family living in a house worth R1.2m should annually budget R1 000 per month for the upkeep of its property.

But the middle-class challenge goes beyond keeping a middle-class job. It also entails sufficient provision for retirement that will continue to support a middle-class lifestyle.

Transnet pensioners who get a pension from the Transnet Second Defined Benefit Fund are the best example in SA of people who have slipped out of the middle class.

In brief, this Transnet fund stipulates that pensioners get an annual pension increase of 2% per annum. In a period where inflation averages nearly 6% per annum (5.8% per annum since 2002), these pensioners get poorer every year.

A simple example illustrates this point: the real income of a person who retired in 2002 and received increases of only 2% per year since would have decreased by 40% over the ensuing period.

Inflation is therefore a clear and present danger for people who want to protect a middle-class lifestyle, particularly after retirement.

The sustained protection of a middle-class lifestyle therefore not only entails the discipline of living within your means, but also requires diligent saving over a lifetime. People who attained middle-class status often live above their means in their enjoyment of this newly attained status. Avoidance of this pitfall will help to ensure a sustained middle-class lifestyle.

The challenge of our time is therefore twofold. The first is reaching a middle-class lifestyle. This is a challenge in itself that many people can only dream of.

The second is to retain middle-class status over a lifetime and into retirement. With households facing financial pressure from all directions, retaining middle-class status should not be taken for granted. It will increasingly require careful planning, hard work and diligent saving ■

editorial@finweek.co.za

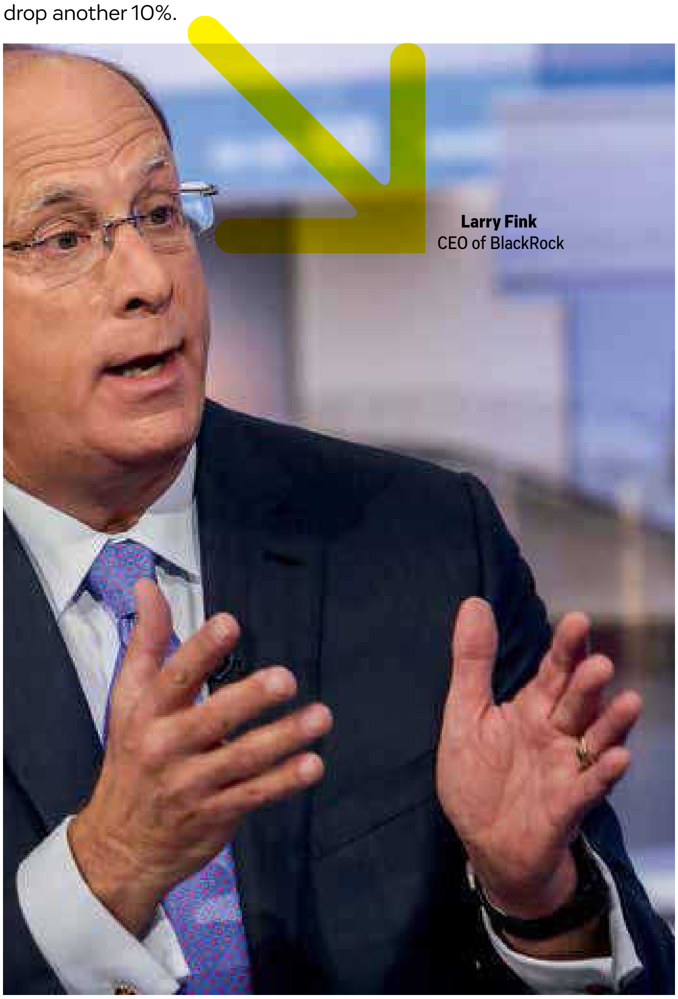
THE CONVERSATION

This is an edited version of a paper written for The Conversation by **Jannie Rossouw**, head of the School of Economic & Business Sciences at the University of the Witwatersrand and **Carina Rossouw**, a BAcc LLB student at Stellenbosch University.

in brief

"I ACTUALLY BELIEVE THERE IS NOT ENOUGH BLOOD IN THE STREETS."

-Larry Fink, CEO of BlackRock, the world's biggest asset manager, in an interview with the *Financial Times* on 15 January. Global markets had their worst start to the year on record, with equity indices in Japan and Europe losing 10% of their value in the first two weeks of 2016, and the S&P 500 shedding 8.8%. Fink predicted that stocks may drop another 10%.



Larry Fink
CEO of BlackRock

Gallo/Getty Images

"Signs of growth bottoming out are nowhere to be seen. Instead, we will see at least another two years of further growth slowdown."

-Li-Gang Liu, the chief economist for Greater China at the Australia and New Zealand Banking Group, comments to *The New York Times* on China's growth prospects after the country released its GDP growth figures for 2015. The economy expanded 6.9%, its slowest pace in 25 years. Fears over the slowdown in China, the world's second-largest economy, and its knock-on effect on the rest of the world have weighed on investors and contributed to the decline in global markets in recent weeks.

"[IT SHOWS] THE ARROGANCE OF POWER AT ITS BEST, WHERE THEY CAN RESORT TO THE USE OF SAVINGS OF THE WORKERS."

-UDM leader Bantu Holomisa comments to *Business Day* after filing a complaint with the Public Protector to request an investigation into allegations that R40m from the Public Investment Corporation (PIC) was channeled to the ANC, allegedly to pay party employees' salaries and the ANC's birthday celebrations early in January. The PIC, which denied the allegations, manages about R1.5tr in assets on behalf of the Government Employees Pension Fund. Holomisa was previously involved in filing a complaint with the Public Protector to investigate irregular procurement at the Electoral Commission (IEC), which led to the resignation of chairwoman Pansy Tlakula, *Business Day* reported.

Bantu Holomisa
UDM leader

OIL GLUT

1.5m

The International Energy Agency (IEA) warned that global oil markets could "drown in oversupply" as demand growth slows and production increases following the lifting of sanctions on Iran. The IEA estimates the oversupply in the first half of the year would be around 1.5m barrels a day. Brent crude dropped below $28 a barrel, its lowest level in 12 years, on 18 January in London trading. The low oil price has been hurting companies like Sasol, which has seen its share price decline nearly 10% since the start of the year.

DOUBLE TAKE

BY RICO

THE GOOD

Finance minister Pravin Gordhan has been making all the right noises since his unexpected return to Treasury in December as he tries to calm investor fears over policy certainty and takes the necessary steps to prevent the country from having its sovereign debt downgraded to junk status. Speaking in an interview with Bloomberg at the World Economic Forum in Davos, FirstRand CEO Johan Burger said he believes Gordhan "will be given the necessary freedom to do what he needs to do" to avoid a downgrade.

THE BAD

About 14m people face hunger in Southern Africa due to the drought, which has limited the planting of cereals as many small-scale farmers rely on rainfall, the United Nations World Food Programme warned. The worst-affected country is Malawi, where 2.8m people – 16% of the population – are expected to go hungry. In South Africa, where 2015 has been the driest year since records began in 1904, white maize prices hit record highs on 18 January, with the March contract reaching R5 106 a ton, Reuters reported.

THE UGLY

The International Monetary Fund (IMF) is expecting South Africa's economy to grow by only 0.7% this year, down from an October estimate of 1.3%. This would be the slowest pace since the recession in 2009. It also cut the growth outlook for 2017 to 1.8% from 2.1%. The slower growth is due to lower commodity prices, weakening business and consumer confidence, expected hikes in interest rates, the drought, policy uncertainty and electricity supply constraints, the IMF said.

Don't miss: The *finweek Money Matters* show every Friday at 1PM on CNBC Africa, channel 410. In the show, we talk to experts about the next issue's top stories.

FUND IN FOCUS: ALPHAWEALTH PRIME SMALL & MID-CAP FUND

By Jaco Visser

Solid names raking in the forex

At least 80% of the fund's underlying portfolio must lie in shares with a market capitalisation smaller than the lowest market capitalisation in the FTSE/JSE Top 40 Index. The fund manager uses a bottom-up approach to stock selection, meaning that it focuses on the underlying stock rather than sectors. This fund is for long-term investors.

FUND INFORMATION

Benchmark:	FTSE/JSE Mid-Cap Index
Fund manager:	Keith McLachlan
Total expense ratio (TER):	1.13%
Fund size:	R41 million
Minimum lump sum/subsequent investment:	R50 000 or R1 000/month
Contact details:	info@primeinvestments.co.za or 010 594 2100

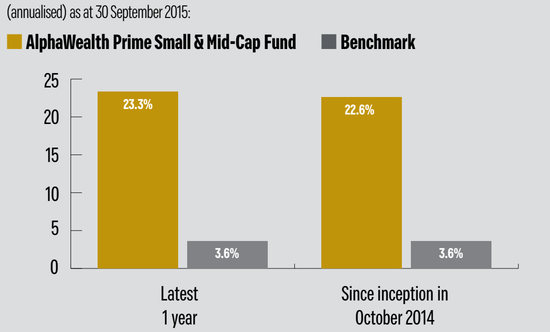
PORTFOLIO COMPOSITION

31 December 2015:

1	Blue Label Telecoms
2	Santova
3	Balwin Properties
4	Afrocentric Investment Corporation
5	Consolidated Infrastructure Group
6	Rolfes
7	ADvTECH
8	Redefine International
9	Ascendis Health
10	Torre

% RETURNS

(annualised) as at 30 September 2015:



Fund manager insights:

The fund has selected some of the strongest names in the small- and mid-capitalisation universe. Of these, Ascendis Health is one of the more notable ones. The company, which owns brands such as Efekto, Evox and Marltons, is well supported by the investment community, according to Keith McLachlan, manager of the fund.

"The company's brand equity is valuable," he explains, referring to the well-known brands in sports nutrition, plant health and animal care that the company owns. "It's quite a defensive stock and plays into the growth theme."

Ascendis recently moved into the European pharmaceutical space through a Spanish acquisition, giving the company valuable access to the booming generic-medicines market. This move, according to McLachlan, would certainly lower the company's currency risk in future when it earns in euros. Ascendis is currently a net importer, thus this move both geographically diversifies the group as well as builds a natural currency hedge into its model.

Another stock which boasts upside in the near future is Blue Label Telecoms, according to McLachlan. The company sells bulk prepaid airtime and electricity from about 150 000 points of sales devices spread across the country, he explains. The group generally sells its (virtual) inventory before it needs to pay its creditors, thus generating a negative working capital cycle and making it a highly cash-generative business.

Furthermore, it is a defensive stock as, no matter how the economy is faring, consumers will continue to buy airtime and electricity, he says. The company is also on the brink of making its Indian unit profitable after a number of years of losses as it ramped up in the world's second most populous nation, McLachlan explains.

Blue Label's stock price is currently discounting the value of its South African operations due to the losses incurred in the Indian and Mexican units, he explains.

"There is a lot of potential for Blue Label in India, Mexico and broader Latin America," he says.

Why *finweek* would consider adding it:

The fund is attractive in the way it chooses its underlying stocks. They consist of solid names and a number of them, including Ascendis, Blue Label Telecoms, Redefine International, Afrocentric and Santova is powering ahead in terms of earnings potential and raking in foreign exchange.

Small cap funds are risky by nature and the underlying stocks' liquidity on the stock exchange has been problematic in the past. Nevertheless, these funds are for the brave and patient investor. Topping it off with quality smaller companies may just prove a good strategy. ■

editorial@finweek.co.za

AB INBEV

BUY SELL **AVOID**

By Simon Brown

Gallo Images/iStock

Not backing this giant

Anheuser-Busch InBev, better known as AB InBev, has listed on the JSE with a market cap of around R3tr – almost double that of the previous largest stock, British American Tobacco.

The trick is that AB InBev is not SABMiller. The latter had a more emerging-market focus and also had a share price sent higher by years of rumours of a possible takeover. The takeover finally happened and SABMiller will be delisted with a P/E of almost 40 times, which is a staggering number.

Ultimately AB InBev is a defensive ex-growth stock (nothing wrong with that) that should trade on a low single digit P/E and juicy dividend yield (DY). Yet its P/E is over 20 times and DY is barely above 2%. So sure, you'll get a currency hedge but you're getting an expensive defensive stock that won't have the same kick as SABMiller, because there are no takeover rumours for AB InBev.

At the end of the day I am not including the stock in my portfolio. ■

Last trade ideas

- HOLD Astoria
- SELL Balwin Properties
- SELL South32
- BUY Conduit

Its P/E is over 20 times and dividend yield is barely above 2%. So sure, you'll get a currency hedge but you're getting an expensive defensive stock that won't have the same kick as SABMiller, because there are no takeover rumours for AB InBev.

BRITISH AMERICAN TOBACCO

BUY SELL HOLD

By Moxima Gama

A great rand hedge

A weakening rand is not always bad news. It's particularly beneficial for selected rand-hedge stocks like British American Tobacco (BAT). In a volatile market, a well-diversified portfolio should have substantial exposure to offshore assets because of the inverse correlation between the performance of the stocks and the value of the local currency. As the rand goes down, their earnings in rand-terms will go up, meaning the rand value of those investments will be getting a healthy boost.

BAT is a global tobacco company with brands sold in more than 200 markets. Its four main brands are Dunhill, Kent, Lucky Strike and Pall Mall. In 2014, it sold 667bn cigarettes in more than 200 markets around the world. Their other products include e-cigarettes, medicinal nicotine products and tobacco-heating products.

The group, which is still to announce its full-year results for 2015, remains a favourite defensive stock. Though company revenues fell 8.45% from £15.26bn in 2013 to £13.97bn in 2014, total dividends for 2014 were still up 4%. Furthermore, BAT is a major global player in a highly consolidated industry – the top five transnational tobacco companies combined own about 84% of the global tobacco market, according to 2014 data by Euromonitor International.

Though company revenues fell 8.45% from £15.26bn in 2013 to £13.97bn in 2014, total dividends for 2014 were still up 4%.

Although BAT is not immune to current economic conditions, the company has a reputation for offsetting a downward trend in cigarette sales by steadily increasing prices.

How to trade it: It has encountered resistance at 90 000c/share twice in December. However, its uptrend remains intact. Near-term volatility may be in the offing, as BAT approaches major resistance. A good entry point would be above 90 000c/share, with potential near- to short-term upside to the 99 490c/share targeted mark (one to three months).

Alternatively, refrain from going long if BAT was to abandon its short-term uptrend, signalled below 84 000c/share. ■

editorial@finweek.co.za

Last trade ideas

- HOLD Capitec Bank
- SELL Nampak
- SELL Mondi Ltd
- SELL Aspen Pharmacare

By Moxima Gama

VODACOM

Is Vodacom topping out?

Vodacom continues to invest heavily in its network that covers a population of around 200m people across South Africa and other African countries.

The mobile industry in sub-Saharan Africa is expected to add more than 400m new smartphone connections by 2020 thanks to falling device prices, bringing the total number of smartphones to 540m, according to a recent report by the GSM Association (GSMA).

Operators' recurring revenues are expected to grow at a compound annual growth rate of 5% a year between 2015 and 2020 to $51bn, the GSMA said. It expects the number of SIM connections, excluding machine-to-machine (M2M) connections, to increase from 722m in 2015 to 982m in 2020, reflecting a compound annual growth rate of 6.3%.

While the sector has enjoyed significant growth, the GSMA warns of a sharp slowdown in subscriber growth rates over the coming years, with compound annual growth rates in the second half of this decade set to be around 6.3%, down from 13% between 2010 and 2015. Similarly, revenue growth will slow to 5%, from 7% in the first half of the decade. This slowdown is partly due to the impact of external factors such as growing competitive pressures and regulatory action, the GSMA said.

Vodacom, which is majority-owned by UK-based Vodafone, is the largest mobile operator in South Africa, and also has mobile operations in Mozambique, Lesotho, Tanzania and the Democratic Republic of the Congo. Its mobile networks cover a total population of around 200m people.

The group is seeing particularly strong growth in data traffic and revenue, with traffic growing 62.3% year-on-year in the six months to end September. Data revenues were up 33.5% year-on-year to R10.1bn, compared with overall revenue growth of 6.4% to nearly R40bn.

The group has been investing heavily in its network, with capital expenditure increasing from R5.88bn in the first half of 2015 to R6.2bn in the first six months of the 2016 financial year. At the end of September 2015, 4G coverage was rolled out to 46.8% of its sites, up from 32.2% a year ago. Overall, capital investment in the industry is expected to reach $13.6bn by 2020, up from $9bn in 2014.

The big challenge for operators will be to continue to monetise the ongoing growth in data traffic, encourage the update of data-centric services by consumers and expand mobile coverage to underserved areas, the GSMA said. Vodacom's planned purchase of Neotel, originally licensed as SA's second fixed-line operator, will help it expand its offering. The structure of the deal is currently subject to negotiations and is expected to exclude Neotel's spectrum and other licenses, and offer a roaming agreement to all the mobile network operators. The change follows a recommendation by the Competition Commission that the Competition Tribunal should limit Vodacom's use of Neotel's spectrum for two years.

Though Vodacom outperformed its peers in 2015, it has lacked impetus to break the ceiling at 15 655c/share.

52-week range:	R127 - R156.54
Price/earnings ratio:	15.96
1-year total return:	16.73%
Market capitalisation:	R210bn
Earnings per share:	R8.85
Dividend yield:	5.63%
Average volume over 30 days:	1 538 366

SOURCE: INET BFA

What next?

Possible scenario: Vodacom seems capped at 15 655c/share, given its falling relative strength index (RSI) since October 2015. Currently a few points away from its major support trendline downside may be limited since Vodacom has bounced there before. However, the share price would have to trade above 15 655c/share to escape current bearish consolidation – and extend the major bull trend to new highs. If support is retained above 13 500c/share, investors should stay long.

Alternative scenario: The major support trendline would be breached below 13 500c/share (caution). Alarm bells should sound below 12 700c/share – reduce long positions. A sell signal, triggered below 12 050c/share, could see Vodacom retest the 10 065c/share support level in the short term. ■

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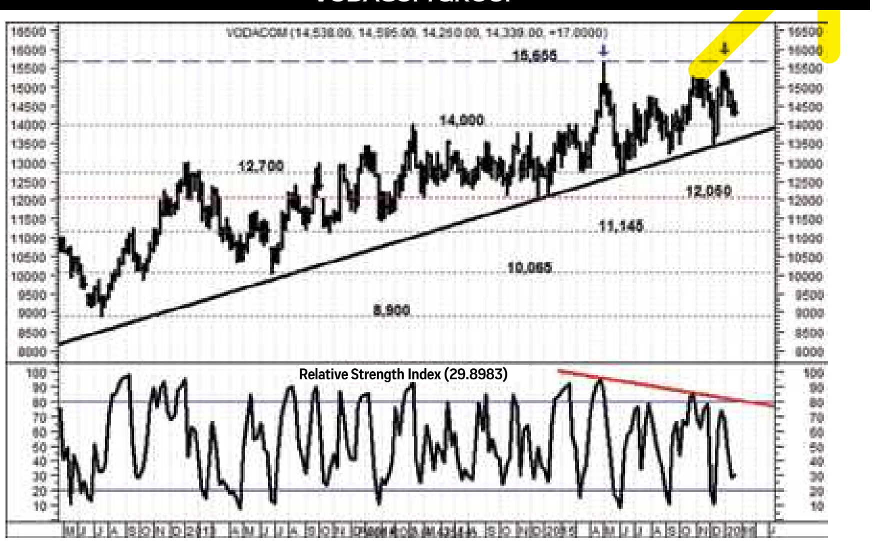
VODACOM GROUP



SOURCE: MetaStock Pro (Reuters)

Moxima Gama has been rated as one of the top 5 technical analysts in South Africa and outperformed the market during the recent recession. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the Research Team in the Treasury Division of CIB.

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown, is *finweek*'s resident expert on the stock markets. In this column, he provides insight into the week's main market news.

RICHEMONT

Still a favourite, despite dip

Mid-January is when the flood of retailer trading updates starts hitting the Sens feed. Richemont* was one of the first and in constant currency (this means the currency it sells in rather than which it reports in) and sales were down. This is the first time in ages that Richemont has had weaker sales and many are blaming the Paris terror attacks that came in the middle of the reporting quarter. Whatever the reason, this remains one of my favourite stocks for three key reasons: currency hedge, China exposure and it is a high-quality retailer with a massive cash balance. I am not even slightly concerned by the drop in sales and will be buying more at these lower prices.

MR PRICE

Not rushing to buy

Mr Price* issued a trading update that saw the stock absolutely smashed as it lost over 17% on the day, and it is now off some 40% from the highs of April last year. Management blames a number of factors. One is the high base they set last year, which is somewhat flakey as they were more than happy with the high base while it was ramping the share price to almost R300 and produced a P/E of over 30 times. The sell-off has seen the P/E now down to a more modest 16 times and a dividend yield of over 3%. Both more reasonable numbers and, if they've resolved the issues with wrong fashion items as reported previously, it is looking attractive but I wouldn't be in a hurry to buy. They continue to face challenging conditions with local consumers and competition from other retailers.

EOH

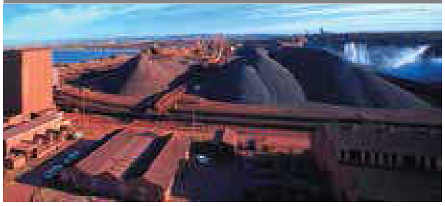
Vague statements create confusion

EOH issued an update about some acquisitions it's made that have boosted its footprints in Africa and the Middle East. It also used the opportunity to comment that it expects the six months to January to see "significant year-on-year growth in revenue, profit and headline earnings per share (HEPS)". Now, I have a major problem with this as "significant" is completely meaningless. It is not a recognised IFRS term and will mean different things to different people. For some it may mean a 20% increase, while others may expect 50% or even 100%! Now, 50% to 100% growth is highly unlikely, but the term significant merely serves to add confusion and begs the question as to why the term was used.

The sell-off has seen the P/E now down to a more modest 16 times and a dividend yield of over

3%.

KUMBA IRON ORE



No great expectations

Kumba has been trading below 3 000c, hitting 2 530c at one stage. This is staggering considering that in the 2012 financial year it paid a dividend of 4 420c. This is despite the much weaker rand, which should be helping, and illustrates the extent of the rout in commodity stocks. I continue to say, the end may not yet be in sight and, even if it is, I am not a buyer until there's a doubling in share prices. We'll see rallies, eventually, but only a doubling will convince me the sector has bottomed. Frankly, I still expect some major withdrawal of production before we hit bottom.

STANDARD BANK'S COMMODITY ETNS

Maize, wheat the winners

Two commodities doing really well are the soft commodity Exchange Traded Notes (ETNs) via Standard Bank. The two are maize and wheat (codes are SBACRN and SBAWHT). With the drought pushing prices higher and the weaker rand adding to the rally, they've added almost 40% since May last year. But that is nothing compared to white and yellow maize traded locally on the agri section of Safex. They've almost doubled in the last year. That said prices have likely topped out as the drought has run its course for this planting season, leaving the country needing to import around half of its requirements. ■

With the drought pushing prices higher and the weaker rand adding to the rally, they've added almost

40%

since May last year.

editorial@finweek.co.za

** The writer owns shares in Richemont and Mr Price.*

By Simon Brown

INVESTMENT

Choosing a company to back

Despite the tough outlook for 2016, there are still companies that will make good investments. Here are a few simple calculations that will help you make smarter investment decisions.

Pretty much everybody agrees it will be a tough 2016 for local and global stock markets. But that doesn't mean we should sell everything and hide out in our bunker – some companies will still manage to do well.

One of the key indicators of a company likely to do better than others is the strength of the company's balance sheet. First, a quick reminder of what a balance sheet is and what it tells us.

A balance sheet includes all assets a company has. Assets would include buildings, equipment, stock, cash, monies owed and goodwill (more on goodwill in a moment). Liabilities are the other side of the balance sheet and include all debts. When subtracting liabilities from assets, one should arrive at a positive value (if not, the company is technically bankrupt). This value is then the net asset value (NAV) of the company, otherwise known as the company's book value or the equity value.

With a listed company the calculation is taken further by dividing the NAV by the number of shares to arrive at NAV/share. A company will trade above this value – investors are not buying the company, but rather the future profits of the company.

One of the key indicators of a company likely to do better than others is the strength of the balance sheet.

The first step is to check that the company's NAV is positive, but I take it a step further and rather look for the tangible NAV (TNAV). This TNAV excludes assets such as goodwill. Goodwill occurs when a company buys another company but pays above the NAV for the stock; this higher payment is because, again, future profits are being bought. The extra payment above NAV is added to the balance sheet as an asset under goodwill.

The concept makes sense, but one has to question whether or not the goodwill can be sold for the same value. That is why I remove goodwill from the equation and use TNAV.

The next step is to determine whether there have been changes in asset valuations. Most equipment will decrease in value as it ages, while buildings may increase in value. But are the changes modest and in line with previous years' adjustments? A sudden change may indicate trouble lurking and the company shoring up its balance sheet.

Is cash increasing? The main focus of a company is to generate cash and, while some of this cash will be put back into growing the company and some used for paying dividends, is the cash pile growing? An exception here may be if another business is bought or a new business is started – this utilisation of cash is one-off and would result in a decreased cash pile.

Also, how does the debt look? How much is current (due within 12 months) and how much of it is long term? The annual report will give a detailed explanation of all debt; the interest rate, maturity date and whether there are any conditions attached that, if breached, may result in immediate recall of the debt.

Lastly, check how much of the debt is in the form of a bank overdraft. This is expensive debt that can be recalled at any time, which adds risk to the business.

Also look for significant changes year-on-year, look whether management comments on the changes and whether you agree with the comments. If you don't, or if management isn't saying much, you're better off looking for another stock to invest in.

Finally, I look at the NAV compared to share price. If the long-term relationship is around 2 times and it is currently 1.1 times or maybe 3 times, the question is why. Are we then looking at a bargain or at a business under pressure? ■

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Simon Brown has been interested in the stock market since his school days in the 1980s and bought his first share a week before the stock market crash of 1987. He started his first trading website in 2000. He has been investing and trading, while also teaching and writing about the subject of markets, ever since.

By Schalk Louw

PORTFOLIO MANAGEMENT

Commodity prices – simply put

If one buys into the assumption that something like super cycles exist and that we are now in the declining phase of the latest one, commodities should become a value-for-money option in the near future.

I find it quite interesting that despite the fact that technology and apps were created to simplify our lives, many aspects of our lives remain extremely complicated, such as the reasons for valuations of certain investments.

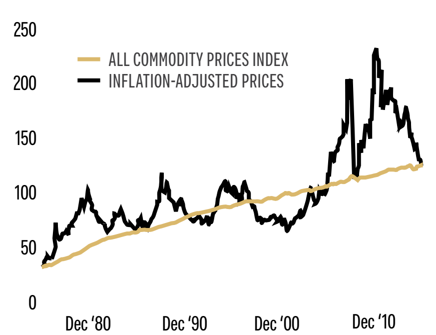
Since the commodity peak in 2010, platinum and copper prices are roughly 55% lower today, while oil and iron ore are a whopping 68% and 77% lower, respectively. Although lower prices (especially oil) are good for consumers in developed countries, it certainly isn't good for commodity-producing countries such as South Africa. This is also one of the main reasons for the 60% drop in the rand's value over the same period, when compared to the US dollar, for example.

Many complicated reasons are offered as to why exactly these drops took place and many of them still leave us in the dark when it comes to what may happen to prices in the near future.

Some argue that it is all part of a super cycle, while others blame China's slowdown in economic growth for the massive decline in commodity prices. I have to point out that I seriously question the latter argument.

If we take an exclusive look at copper, for example, this argument doesn't quite add up. The reason for this is simply that China's copper demand around 2010 was 40% of the total worldwide copper demand.

ALL COMMODITY PRICE INDEX & G7 INFLATION-ADJUSTED PRICES



SOURCES: IMF & PSG Old Oak

TOTAL NON-OIL COMMODITY PRICES

	1894 – 1932	1932 – 1971	1971 – 1999	1999 – ongoing
Peak year	1917	1951	1973	2010
Percentage rise in prices during upswing	50.2%	72%	38.9%	81.3%
Percentage fall in prices during downswing	-54.6%	-43.3%	-52.5%	-
Length of the cycle (years)	38	39	28	-
Upswing	23	19	2	11
Downswing	15	20	26	-

If they (and this is highly unlikely) ceased the purchase of copper altogether, it would justify a drop of around 40% in price. The copper price, however, is closer to 60% lower than 2010 levels.

But before I air my opinion in this regard, it is imperative that I quickly explain two terms: "correction" and "value". As the word indicates, a correction is an event that occurs, the outcome of which is something being corrected or rectified. Dictionaries define value as something that is "fairly priced". So in theory, if the market, any asset class or commodity price survives a correction, it should be priced correctly and very close to a level where it offers us fair value.

Since December 2015, commodity prices have been priced fairly for the first time since the great correction of 2008.

Returning to commodity prices, let's go with the assumption that we have experienced super cycles and that the latest cycle – according to Bilge Erten and José Antonio Ocampo's super cycle report released in 2012 – started in 1999, peaked in 2010 and is now in a declining phase.

According to this report (see table above), the last commodity super cycle took place between 1971 and 1999.

The peak during the last cycle took place in 1973 and, just as now, was followed by the great correction.

If we go with the assumption that the correction was 100% successful during the last cycle and that the lowest point after the decline resulted in prices being "correct", commodities should have been priced correctly by the end of 1975. But what would have been a fair annual increase thereafter?

Many may argue that commodities are becoming scarcer over time, and also that it is becoming more and more expensive to mine them, which would mean that an adjustment in excess of annual inflation would be needed.

By taking a look at the International Monetary Fund's All Commodity Price Index since 1975 and by adjusting it with world inflation only (by using the G7 largest average countries' inflation rates), two things in the graph below left become very clear:

1. Commodity prices have formed a giant bubble between 2005 and 2010. This was due to the massive growth in the Chinese economy, with 10.5% growth per year between 2002 and 2012 (the equivalent of a new economy the size of Sweden's every year).
2. More importantly: since December 2015, commodity prices have been priced fairly for the first time since the great correction of 2008, according to inflation adjustments.

So will I buy every single commodity share that I can lay my hands on now? Probably not. Just as I wouldn't convert all my foreign investments back to rands. Simply put, commodities shouldn't be seen as the "bad boy" in investment portfolios forever.

From here on, it will slowly start to offer us value for money again. ■

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Schalk Louw is a portfolio manager at PSG Wealth.

By Rhynhardt Roodt

TRUWORTHS

Positive outlook for 2016

While retail might not seem like the sector to be rushing into now, there are compelling reasons why Truworths is worth the risk.

Dean Hutton/Bloomberg via Getty Images

The Investec Equity Fund invests in companies where expected future profits are being revised upwards while trading at reasonable valuations. We believe Truworths is such a company. While retail might not seem like the sector to be rushing into now, we believe the market has become too bearish on the share. One of the main factors that differentiates Truworths from its competitors is that it offers credit, which encourages sales across a range of its brands. Approximately 70% of its sales is on credit, compared to its competitors, which typically have credit sales well below 50%.

On the face of it, credit sales might not sound like an encouraging element and indeed, any retailer with some reliance on credit sales is sensitive to swings in the credit cycle. In times of credit downturns, Truworths tends to underperform, as could be seen over the last few years. However, when the cycle turns, it should outperform its peers that are mainly reliant on cash sales. Contrary to the current bearish consensus thinking the South African credit cycle appears to be improving, which can be seen in the stabilisation of bad debts in relation to credit sales.

We are not too concerned about the increasing entrance of international brands such as Zara and H&M competing for Truworths' clientele, as these stores typically do not offer credit and serve different target markets.

> One of the main factors that differentiates Truworths from its competitors is that it offers credit, which encourages sales across a range of its brands.

We have faith in the management of the company, which has led the expansion of the business over the years to serve a wider customer base that today spans women, men and children. Its more recent acquisitions of Earthchild and Naartjie have accelerated its presence in the high-growth kids market. The rollout of credit into these stores should further bolster the growth of the business.

Towards the end of 2015 Truworths announced the acquisition of Office Retail in the UK. Not only should the acquisition prove to be earnings accretive, it further enhances diversification and gives the group expansion opportunities abroad.

Like many investors we expect the SA consumer environment to be tough this year and we have indeed lowered our exposure to domestic-oriented stocks over the past few months. But we believe Truworths is rather "unloved" at the moment and could positively surprise investors in the coming year. ■

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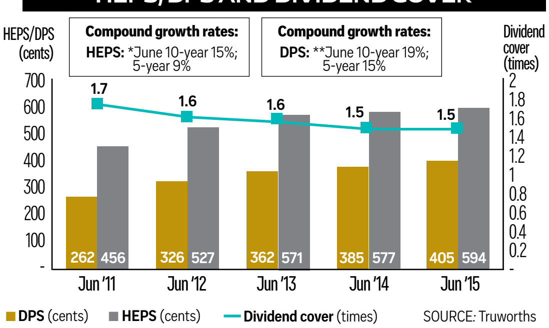
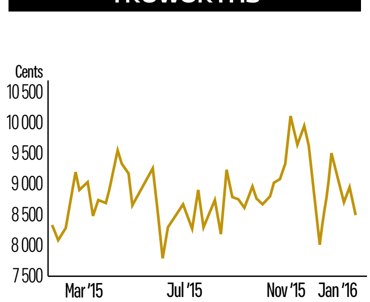
Rhynhardt Roodt is a portfolio manager at Investec Asset Management.

HEPS, DPS AND DIVIDEND COVER



* Headline earnings per share. ** Dividend per share.

TRUWORTHS



52-week range:	R74.64 - R107.01
Price/earnings ratio:	14.60
1-year total return:	16.63%
Market capitalisation:	R37.25bn
Earnings per share:	R5.94
Dividend yield:	4.68%
Average volume over 30 days:	2 570 467

SOURCE: INET BFA

finweek COLLECTIVE INSIGHT

INSIGHT INTO SA INVESTING FROM LEADING PROFESSIONALS

JANUARY 2016

DISRUPTION:

WHAT LIES AHEAD FOR FINANCIAL SERVICES IN SA?

Inside


THE FEELING
OF FLYING
WITHOUT
THE FEAR
OF FALLING.
"Higher!" your child calls as you give her a push. The wind tousles her hair, and you don't give a thought to the rigidity of the swing's chains or the sturdiness of the frame. As her toes touch the sky and she squeals with delight, you realise that the things you trust most, never stop working to earn it.
To find out how Coronation can earn your trust, speak to your financial advisor or visit www.coronation.com
CORONATION
FUND MANAGERS
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NET#WORK

By Patrice Rassou

INTRODUCTION

Time for the Financial Force to awaken

Are disruptors the Jedis of our era – battling the dark forces hiding in corporate battleships? Or is this just another buzzword, another rerun that won't win any academy awards? Our mission (admittedly a very ambitious one) in this edition of *Collective Insight* is to distil whether the financial industry is about to enter an evolutionary or a revolutionary era. We hope that the concepts presented here will prove a useful star map to navigate the worm holes of the financial universe.

The editorial board, in the mould of a good intergalactic council, endeavoured to be a peace broker between articles whose ideas were at times at loggerheads and ranged from the academic to the quirky. From those in denial of an imminent attack and hell-bent to defend the status quo, to articles pre-empting an invasion from the likes of Google and Facebook, we hope to give you a feel for the debates that are currently raging in the sector.

For South Africa, some of the secular offshore trends such as the adoption of passive investing and increased demand for alternative/real assets seem a natural fit and are more likely to become entrenched. Other concepts, such as robo-advice and blockchain technology might find different challenges in the South African context.

As consumers of financial services you are likely to benefit from more targeted offerings at a lower cost. Regulation will change the way services get delivered to you and some of you may be able to leverage off technology more effectively. Innovations far from our shores are having a direct impact on morphing the financial industry, and our regulators are proving important catalysts of change.

The risk here is that this edition turns out to be less prophetic and more like an old episode of *Back to the Future,* where predictions of the future end up looking outlandish. And yet we felt that it was important for providers to acknowledge that they need to either disrupt themselves or suffer the consequences of being disrupted.

This forebodes new opportunities for the South African consumer, with our economy plagued by a low savings rate and financial needs not adequately catered for. To remain relevant, the industry will have to look at financial problems more holistically and assist people in finding solutions tailored to their own circumstances. While wealth protection solutions abound, the industry needs to partner with all individuals in order to also provide advice to those that have yet to embark on their financial accumulation journey. The onus is on the existing financial providers to become more connected in the fabric of society or risk becoming obsolete.

To remain relevant, the industry will have to look at financial problems more holistically and assist people in finding solutions tailored to their own circumstances.

Deslin Naidoo (Alexander Forbes) kicks off by illustrating how technological change is lowering barriers to entry and creating markets of One in the financial services industry. Hywel George (OMIG) gives us insights into three of the bigger themes likely to disrupt the investment industry. Michael Streatfield counters that the menace to the industry is perhaps far from being a Death Star. Indeed, human beings tend to believe that every new-new thing will change life forever but this simply sets us up for disappointment. Ainsley To (Credo Capital) echoes this sentiment by proposing that there may well be no silver bullet, or lightsabre, when it comes to new products or distribution channels – but nonetheless we think that you should be ready to be stunned.

From the evolutionary we also delve into the revolutionary: concepts such as robo-advisers and blockchain technology discussed by Claire Rentzke (27Four) have far-reaching applications. But what we shouldn't lose sight of

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is that with revolution, or even evolution, come unintended consequences. As Colin Habberton (Payprop Capital) points out, we may finally succeed in getting investors to unleash People Power when it comes to more responsible investment policies. But how well does that square with Treating Customers Fairly (TCF), where we need to act in the individual's financial interest first? The current Sanral controversy provides an excellent case study.

For us earthlings, change is closer than you think: Anet Ahern (PSG Asset Management) maps out how forthcoming regulation will forever change the way you and I receive financial advice. The invisible force of disruption is all around us but some erroneously believe that they will be able to escape its impact.

Finally our resident Princess Leia, Anne Cabot-Alletzhauser (Alexander Forbes) rounds up this edition with a critical question: The concept of disruption as a business phenomenon refers primarily to strategies that are able to open up services and products to a completely new market. Financial services in South Africa may represent some of the most sophisticated in the developing world – but how much of this sophistication actually addresses the problems of the other 99% of our population? True disruption will happen in this economy when The Financial Force Awakens on behalf of the average South African.

Happy reading and may the Force be with you! ■

Patrice Rassou is the head of equities at Sanlam Investments. He also manages the SIM General Equity & SIM Top Choice Unit trust as well as specialist financial mandates and SIM equity house view and is responsible for equity selection for the SIM Low Equity Unit Trust. Rassou is one of South Africa's leading banking sector analysts and is a regular and sought-after media commenter.

By Deslin Naidoo

FINANCIAL TECHNOLOGY

How technology is changing the way we connect

We live in a reality where technological advances have impacted the way we connect, how we collect and exchange data and do business. In this age of disruption, how are financial services going to keep up?

Change can be driven by need, opportunity or by the fact that something has simply become obsolete. There are two primary catalysts that perpetuate change in our world: the needs of society and technological advancements. At this point in time, I believe that advances in technology have so reshaped the way we can process and analyse information, that this alone will likely have far-reaching consequences. More importantly, these advances also significantly impact how we connect to each other and what the implications of those connections could be.

The future is now

In 1999, the Wachowskis presented a dystopian world where everything was connected in the film *The Matrix*. Today, a connected world is no longer fiction; the Internet of Things is the name given to a network of physical objects that collect and exchange data. This, in turn, allows for a more direct integration between our physical reality and computer-based systems. It is all around us and we have adopted much advancement without second thought.

The Internet of Things has spawned the concept of Big Data which, in turn, has radicalised the way business, media and the consumer interact. Big Data refers to the management of large, complex and even disparate sets of data which can be used for predictive analytics and decision making.

Our use of data and information as a species will continue to grow exponentially as we adopt these technologies into our daily living: smart homes; driverless cars; intelligent shopping systems. This will only evolve to greater heights over the short term; providing opportunities for innovators and entrepreneurs to evolve and even disrupt traditional business and consumer models. The focal point being all information, available anywhere, all the time!

Making a play

It is for this reason (and rightly so) that C-class executives are obsessed with innovation and disruption. Understanding and making you, the client, central to a business' operating model would be its greatest challenge. An increasing number of people now have an amplified interaction and awareness of our world; a world in which we are offered more choices. Choice in itself can be overwhelming, so the customisation and targeting of the right messages, combined with a framework to make informed, yet quick, decisions is the first evolution of this market.

But what about the whole financial services business model? Jamie Dimon, the CEO of JPMorgan Chase, in his annual letter to shareholders last year, wrote: "Silicon Valley is coming for Wall Street". Globally, the number one venture capital business funding over recent years has been "fintech" – financial technology businesses that challenge financial services companies – banks, insurers, asset managers – across its diverse financial product lines, from lending and payments to trading, administration and advice. It is not absurd that the future global financial giants could be Google, Facebook or even Alibaba.

Changing up the finance world

Financial services firms have been on the cusp of being disrupted for some time. Advances have been made in lending where Big Data solutions are already able to evaluate the

credit-worthiness of an individual and within minutes make the funds available. This can take weeks in the traditional banking model.

Already operational changes have taken root: Traders at banks have become largely obsolete as trading algorithms dominate market execution. The JSE has almost 80% of its trading executed through algorithms. Big data algorithms are also analysing companies in a far more detailed and expansive framework, which could soon make the traditional company analyst redundant.

Connectedness in financial services would mean being able to know your financial position at all times, make superior decisions about your money and transact seamlessly with the world. Augmented with personal information about you, this holistic financial view will immediately change the way businesses offer services and products.

The biggest shift would be a move away from one-size-fits-all product frameworks to customised solutions that meet your needs at a much lower cost. A dramatic shift would take place across investment products moving away from standardised generic funds towards specific goal-based investment solutions. Investment solutions are investment products designed to maximise the probability of success of meeting specific financial goals within a specified time and given levels of risk. These products will dynamically adjust their strategy based on your individual circumstances and needs. Imagine retirement solutions customised towards your personal goals instead of selecting from a standard menu of fund options.

The local savings and investment landscape will also be profoundly shaken up by regulatory changes based on the Retail Distribution Review. A legislative change in the remuneration model for financial advisers would require them to evolve their role. Global trends have indicated that the extension from financial adviser to life coach has been successful. Our greatest challenge is navigating scarcity; we only have a finite sum to balance our basic needs, accommodate our lifestyle and to save for the future. To meet this challenge, the future adviser would need to become compliant on all aspects of the financial problem (investments, insurance, health care, debt management etc.) in order to add value to you.

This would benefit many, but many may also lose access to or not be able to afford these premium services of a good financial adviser. Early version robo-advisers – online automated algorithm-based advice services – are already available to help you navigate the complexities of financial decision making. For now, these robo-advisers focus on the individual elements of the financial process. When these engines become more intelligent and are able to dissect the overall savings problem by helping you prioritise *all* goals, and optimise your capital allocation effectively, the industry will face a major disruption.

Imagine retirement solutions customised towards your personal goals instead of selecting from a standard menu of fund options.

Shaping the world

South Africa may not be a driver in the creation of many of these technologies, but the adoption of them in all likelihood will be swift. However, irrespective of the application of technology, it is the benefits that these firms bring to you which matter most:

1. **A material reduction of costs;**
2. **Products/services that more explicitly meet needs;**
3. **Improved quality of products/services; and**
4. **Increased access and efficiency of products/services.**

Could it be, as the pundits claim, that millennials share a greater compassion to redress these inequalities and would demand changes to the nature of their savings products with a greater focus towards responsible businesses that positively impact society? If so, this technological and information connectedness will further highlight that we do not live in a fragmented world, and as a society our actions impact everyone else for better or for worse.

If so, this could see more investment flows into Impact Investing, a specialised investment framework of allocating capital directly to projects (organisations) that generate not only a market-related investment return, but also a sustainable impact on the society we live in. Ubuntu would finally become globally understood and hopefully an understanding of the inequalities that exist in society. One can only hope.

Innovative solutions that help direct capital more efficiently towards these initiatives will have the ability to disrupt many inequalities that exist in the world. Globally, the largest independent allocators of capital remain retirement funds with the responsibility of securing the well-being of its members at retirement. As such they should ensure that their investments shaped a world worth retiring into. ■

Deslin Naidoo is the head of investment research at Alexander Forbes. He manages and oversees the AF branded investment products. One of his main responsibilities is to lead the design and structure of the AF LifeStage portfolios, the default retirement option for the AFRF platform and Alexander Forbes.

By Dr Michael Streatfield

REGULATION

Set your disruptors to stun...

Although the term disruption can be intimidating and somewhat disturbing, it should not be seen as the key threat to financial services. There are other more pressing forces at work.

Disruption is a cool word. A menacing threat with huge promise of upheaval, but is the danger real, or merely science fiction? More phantom menace, than heralding a new generation?

I propose that disruption is not the key threat to the investment industry. Misguided regulation and investor apathy are greater threats to the savings industry. We need to rebel against this to ensure the industry thrives and becomes something worth reinventing.

The car industry is abuzz with disruption talk such as electric vehicles, driverless cars, and car-sharing models. Truly exciting times are ahead for car consumers, but let's see the wood/hydrocarbons amongst the trees/oilfields. For all the press talk (and Musk tweet time) Electric Vehicles (EVs) get, people forget that Battery EVs were a mere 0.4% of all cars sold in the US last year. Tesla has a similar market capitalisation as Audi, but made 55 times less cars. Electrifying valuations for a very old innovation – the electric battery was invented in 1800. Hype is exciting but it is profits, not promises, that pay the bills.

Like the flying cars heralded in 50s magazines, passive investing in the 70s was going to disrupt our investing industry. But decades later it is still just a small piece of the active investing puzzle.

What is not as exciting, and does not garner headlines, is the increasing complexity of regulation that has been flung at the industry over the last decade. For example, FATCA, MIFID, SOX, TCF, FAIS, FICA – this alphabet soup of regulation comes at a cost.

Regulation and the law of unintended consequences

The financial industry is indeed a golden goose. The SA taxman's 2015 Tax Statistics annual summary shows the financial sector contributed the majority of tax receipts at all gates – corporate, personal tax and VAT. But how resilient is this industry to rising costs of regulation and the growing complexity?

One response globally is corporate cost-cutting and a serious loss of jobs. Half a million banking jobs have gone since 2008 as investment banks have been broadsided by regulation.

Disclosure requirements also don't promise better outcomes. Schwartz and Potter found even with mandatory disclosure in unit trusts, the SEC filings did not match the market databases as funds took short cuts with accuracy.

What are the other post-2008 consequences that these regulations brought us? The Volcker Rule (the rule that restricted banks from engaging in risky trading activities on their own account) has resulted in less market depth, as its impact led to investment banks shutting down trading operations and prop desks. Average trading volumes on the US market since 2008 have halved. (And yet, according to a publication McKinsey released in February last year, it wryly notes deleveraging has not occurred, with debt levels raised by $57bn.) So the investing landscape is on shakier ground with increased volatility. It's no wonder that we saw 2016 start with China's market circuit breakers tripping twice in one week.

Watching paint dry

Compound interest takes time. In a low-return environment, this takes even longer. (Recall the Rule of 72, dividing by yield to estimate the time for money to double. At 15% it's about 5 years, at 5% it's a slow 14.4 years.) We know markets on historically high valuations mean low prospective returns. (That's just asset pricing.)

Will the next generation of investing consumers, used to continuous upgrades, sit and watch their personal pension tick along at this glacial pace? And will they have the fortitude to commit more capital over these upcoming lean years for markets? Particularly when burdened with high levels of student debt to digest (or their entry level mortgages facing rising interest rates).

Lower returns and lower contributions. The (discretionary) investment cake seems set to shrink. And that is before the retiring boomers start disinvesting. And the new wealthy of the emerging world seem attracted to bricks and mortar, not scrip.

Is our cake attractive enough to disrupt? The investment industry risks being overlooked.

These are not the droids you are looking for...

WHAT CAN HAPPEN?

In a consumerist world, the banking payments industry with its rich spreads is more squarely in the disruptors' sights. So what can the investment industry do to ensure the force is with us ... always?

Simpler not simple. Do we need to trade daily? Do we need to see our portfolios in real-time? As amazing as technology is, is it good for us? We know markets are noisy and more information can lead to more trading, which behavioural finance warns us is often not a winning strategy. Daily recons and straight-through processing is not costless. Perhaps it is time for a slower, cheaper servicing model.

Gamification. If my medical aid can give me a coffee for training three times a week, then what can my finance company give me? Lightsabres, please.

Industry strikes back. In the future, regulators and the industry must work closely together to avoid knee-jerk regulations that add more cost than benefit. This requires earning the public's trust, but avoiding costly drains on their savings is the ultimate saving.

Shields up. In tough times to come, we need to resist raising barriers to entry with cheap protectionism. We should, like the Borg in *Star Trek*, assimilate the disruptors to improve our business models for the benefit of our clients. With change, resistance is futile. ■

Dr Michael Streatfield, CFA, is writing in his personal capacity. After completing his doctorate at the University of Oxford, he returned to Cape Town as a founding partner of the global hedge fund advisory Fortitudine Vincimus Capital (fvcadvisors.com).

By Hywel George

INVESTMENTS

Potential disruptors for SA's saving and investment industry

Although the saving and investment landscape has not been as affected by digital disruption as other industries, there are a few disruptors that could change that ...

To date the South African savings and investment landscape has been relatively immune to the digital disruption that has been brought to bear on other industries globally, including the hotel industry (Airbnb), the taxi industry (Uber), retail (Amazon), music (Apple) and entertainment (Netflix).

But there are disruptors that may well gain traction in South Africa over the next five years and investors would do well to get themselves fully acquainted with the concepts.

Robo-advice becomes real

Robo-advice is online, automated portfolio management advice that is generated from sophisticated algorithms. It is gaining traction as investment costs come under greater scrutiny and clients become more comfortable migrating onto digital investment platforms.

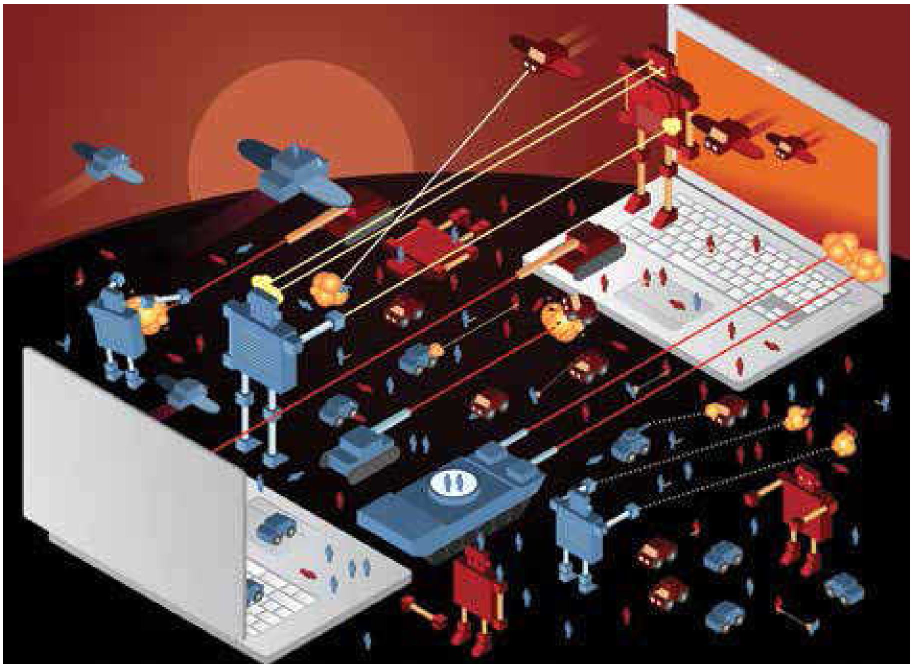
In fact, the use of robo-advice has exploded globally, with estimates that assets under management could grow by 2 500% to $489bn by 2020 from $18.7bn currently, according to research firm Cerulli Associates.

One of the global leaders in the field is US-based Wealthfront, an online-only business run by investment luminaries such as Burton Malkiel, author of *A Random Walk Down Wall Street,* who was a director and then board member at Vanguard for 28 years and is now the robo-adviser's chief investment officer.

Wealthfront is a typical robo-adviser, providing low-cost advice by employing algorithms to build a portfolio of ETFs that suit an investor's specific risk appetite and goals.

While there is much international debate as to the extent that robo-advice will replace human financial advice, there's no doubt that the investment industry will need to up its game technologically if it is to keep pace with the start-ups that have already begun to disrupt the global investment industry.

So in anticipation of robo-advice inevitably coming to South Africa, we need to be smart, digitising the delivery of savings products.



Digital advice is also well-suited to goal-based rather than input-based investing and thus it is important for the industry to help clients build up a full picture of their financial situation. This is possible through digital cash flow and budgeting tools, like 22seven, which is a good example of the local financial services industry's response to disruption in the wealth space, or integrated advice-driven financial plans, like Old Mutual Wealth's.

The rise of passive investing

Already underway but likely to become much more prevalent in the asset management industry over the next few years, is the continued shift to passive investing. While internationally indexation funds comprise about a quarter of funds under management, in SA these comprise a mere 1%, according to Morningstar. That means the amount invested in indexation funds locally would need to increase by 80% a year to catch up to the global percentage by August 2020.

We expect it to gain substantial momentum in South Africa over the next five years because:

- For the past few years there has been continued downward pressure on fees; in a generally lower-return environment, fees comprise a higher proportion of returns, eating into the net returns delivered to clients.
- Over a five-year period, a relatively large proportion of South African active fund managers have underperformed their benchmarks and this has increased investor interest in passive funds.

Investors should consider including passive funds in a blended portfolio that includes active funds so that they can benefit from both approaches to investing.

More money allocated to real assets

The demand for alternative investments in

real assets has grown and will likely impact the investment industry. As global yields have trended lower, asset owners have been seeking better returns. The one place they have been able to achieve these is in real assets because of the higher returns they offer, which include an illiquidity premium.

The use of robo-advice has exploded globally, with estimates that assets under management could grow by 2 500% to $489bn by 2020 from $18.7bn currently.

Also, there is less perceived volatility in real assets because they are not marked-to-market on a daily basis – and they offer a smoother, less correlated, inflation-driven return path.

As a result, institutional investors in Africa are increasing their allocation to alternative investments across Africa to achieve the 3% premium over comparable listed markets available from exposure to the asset class.

Although most institutional portfolios in South Africa and the rest of Africa are currently far behind in their allocation to alternatives (by comparison, in the US, Europe and Australia the average allocation is 7% to 15%), the amendment of Regulation 28 in South Africa should facilitate greater exposure. A similar trend can be seen in Nigeria, where Nigerian pension fund regulation has recently been amended with the same objective.

Africa's alternative investment opportunities are also receiving increasing attention from global investors because Africa has become a more desirable investment destination as a result of strong underlying fundamentals: demography, increasingly sound governance, and high projected growth rates. And because of the underdeveloped nature of the listed markets in many African countries, investors are considering unlisted investment opportunities in private equity, real estate, infrastructure and agriculture as ways of meaningfully accessing this investment opportunity.

Thus we foresee continued demand for regional and pan-African alternative investment over the next five years.

Together these three secular trends promise to change the face of the investment and savings industry in South Africa over the next five years – and traditional asset management companies will need to position themselves to capitalise on these opportunities, otherwise their business will be eroded by the bold newcomers who do. ■

Hywel George joined Old Mutual Investment Group in August 2013 and is responsible for the delivery of performance across the listed asset management business. He also provides thought leadership to the business, as well as nurturing and developing new investment products. He has worked in institutional and private client asset management in Europe and the Middle East for over 25 years, including for Goldman Sachs and Morgan Stanley.

By Claire Rentzke

DIGITAL TRANSACTIONS

Have the fintech game changers truly arrived?

Fintech is changing the services that we provide our clients. Robo-advisers are certainly newsworthy and blockchain technology is potentially the most disruptive. But at present, fintech will probably only prove truly disruptive in rare and limited cases.

History does not repeat itself, but it does rhyme. One of the latest buzzwords to appear in finance is "fintech", reminding one of the internet revolution of the late 1990s. During this time there were wild predictions of total change to the fabric of the economy which would lead to the demise of bricks and mortar.

However, the reality was much different and despite a massive impact, it only disrupted a few niche areas. The outcome was traditional business embracing technology to more effectively execute their business operations.

Fintech is an all-encompassing definition for businesses that utilise software and technology in general to provide some sort of financial service. These financial services tend to be very niche-focused and not an all-encompassing offering such as you would get at a bank or insurance company.

An example would be the payment apps you might see at your local coffee shop, which are effectively still leveraging off the banking infrastructure. Other fintech start-ups such as peer-to-peer lending or crowd funding compete more directly with traditional finance firms.

These fintech companies' offerings are not revolutionary per se, just a different vehicle to channel existing solutions. One of the reasons why traditional finance firms are not as fast to market is their tendency to operate strictly within regulation, whereas many fintech companies are flouting regulations, arguing that it is outdated, or skating very near to the edge where established institutions fear to tread.

Once there is regulatory certainty, traditional firms will tend to roll out similar offerings either developed in-house or through buying out some of the fintech firms.

Robo-advisers

A newsworthy example is robo-advisers, where fintech companies have a larger part of the market share. Robo-advisers are financial advisers that offer limited financial planning services, with no human interaction, mostly via online platforms utilising algorithms. Stripping off the fancy packaging and jargon, these tend to be nothing more than a risk profiler, linked to an algorithm predominantly based on mean variance optimisation. Implementation is either via a portfolio of ETFs or a portfolio of assets to match the risk profile. Some offer more advanced rebalancing and tax loss harvesting solutions.

Despite all the hype these robo-advisers have received, this is not necessarily a holistic financial planning tool as it tends to focus mostly on investments. In some markets regulatory clarity on these offerings has been established, leading to the large fund managers entering this space. This enables them to target people that prefer having an illusion of DIY financial planning but, more importantly, they can now target lower income groups. The economies of scale of such a platform makes it possible to offer financial advice almost for free – it becomes an asset gathering tool.

It is unlikely that robo-advisers will be able to offer holistic financial advice in the near future; the weakness is more on the user side. Even fund managers make use of financial planners when it comes to their personal finances despite being some of the best-informed individuals when it comes to financial products.

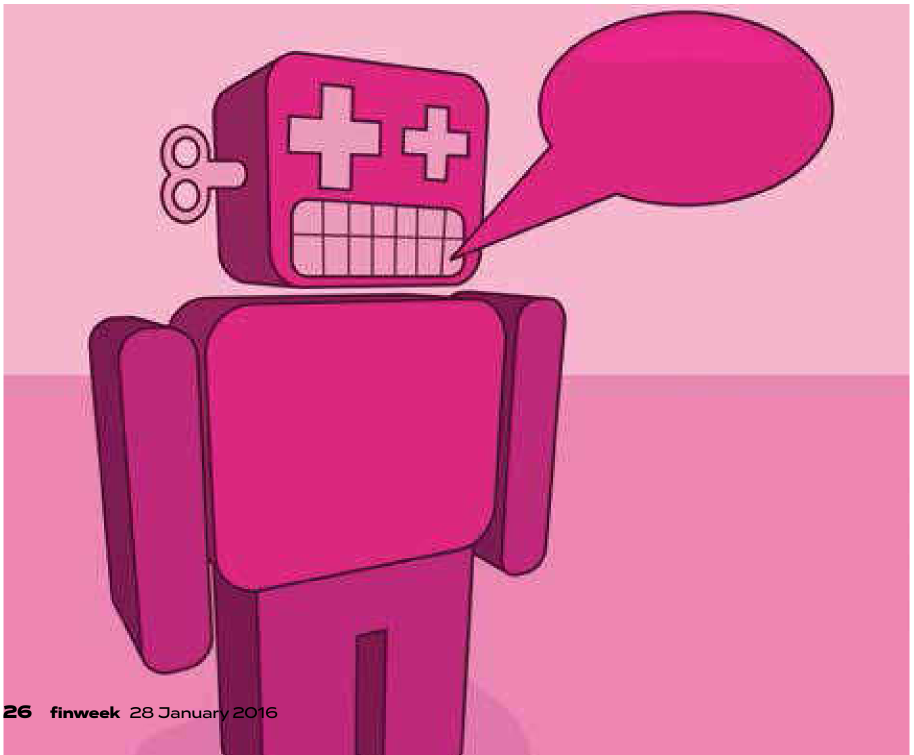
They are not up to speed with all the nuances between medical aids, insurance, drafting of wills, tax implications etc. like a professional financial planner. In the near future there will be difficulties in a person with limited financial literacy being fully serviced by a robo-adviser.

The biggest game changers are likely to still follow as the technology is further refined and implemented and that may well radically change how we operate.

Blockchain technology

Blockchain technology is potentially the most disruptive. In the mid-70s the TCP/IP Internet network protocol was developed to enable computers to connect and communicate with each other. In the same way that the communication protocol was developed in order to ensure messages sent digitally are delivered to their intended recipient through the use of IP addresses and the associated technology, blockchain has been developed as a value-exchange protocol. This should not be confused with Bitcoins, although crypto currency demonstrates one of the many applications of blockchain technology.

Gold is valuable to society because it is difficult to counterfeit, is scarce, easy to transport, is divisible and can be merged. These properties make gold the ideal medium of exchange, a way to store value and ultimately a unit of account. Blockchain protocol meets all of these criteria but is intangible, which makes it harder for people to comprehend.



What may well arise are blockchain platforms to offer a range of services. If we think of the dematerialisation of the JSE, you no longer have a physical share certificate, rather an entry on a share register and a custodian account. Blockchain is the next evolution to digital assets. For example, instead of using bankers and custodians, companies can issue bonds directly to investors on a platform based on blockchain technology. Because of the nature of this technology (it is decentralised), users can subdivide the bonds and sell them in small portions; the company can pay coupons or redeem the bond digitally directly to/from the current owner.

This could effectively eliminate the need for custodians in their current form and compete directly with offerings of bankers and even stock exchanges. It can also dramatically reduce the time taken to complete transactions.

We can expect many developments like digital bonds/shares that are purely immaterial in nature. Following soon will be methods to link real assets to digital registries, so that ownership of these assets is transferred via a blockchain-based platform. The technology has already been used by the Nasdaq. Nasdaq has recently used blockchain technology to complete and record a private securities transaction for the first time. Chain.com (a Nasdaq partner) became the first user of Nasdaq's Linq blockchain when it issued shares to a private investor.

The fintech that most of us are currently exposed to on a daily basis will probably remain niche for now and will only be disruptive in rare and limited cases. Traditional financial entities will be able to adapt and incorporate them, just like other firms reacted to e-commerce and the internet in general. The biggest game changers are likely to still follow as the technology is further refined and implemented and that may well radically change how we operate. ■

Claire Rentzke has joined the 27four team as head of manager research. Claire holds a BBusSci (Hons) and is a CFA chartered holder. Prior to 27four, Claire worked at RisCura Solutions, where she consulted to some of the largest retirement funds in South Africa. Prior to RisCura, Claire worked for Citigate Financial Intelligence.

By Ainsley To

FINANCIAL ADVISERS

Chronocentricity - Will this time really be different?

Ainsley To acknowledges that the most dangerous phrase in finance is "this time is *never* different". But he explains that although it is necessary to constantly adapt our processes and theories to innovation, it is equally important to do so with a healthy dose of scepticism.

"A worldwide communications network that spans continents and oceans, it has revolutionised the business practice, giving rise to new forms of frauds and crime, and inundated its users with a deluge of information. Romances blossom over the wires, secret codes are devised by some and cracked by others. Huge fortunes have been amassed and lost again as the network takes shape. Attitudes towards everything, from news flows to diplomacy, to prospects for world peace are being completely rethought."

- *The Victorian Internet* by Tom Standage

The excerpt above was written in the mid-1800s about the electric telegraph.

Chronocentricity is the human tendency to believe our generation is the one that sits on the cusp of history; that the changes of our time are unique and will result in a quantum leap in the way we live. The reality is that we are no more special than the generations that came before us and change is a permanent feature of human history. The internet today is the same tool refined from its guise as the telegraph 150 years ago.

Here are examples from asset management, wealth management, and economic theory that illustrate how our chronocentric brains may be overly optimistic at this point in time.

Smart Beta

The marketing concept that Towers Watson named "Smart Beta" has been a disruptive force for traditional active and passive managers of late, seeing widespread adoption by investment consultants and some of the largest pension funds globally. Unfortunately, unlike communications technology (we are never going back to telegraphs), financial markets put a winner's curse on any "smart" strategy – it either gathers too many assets and reaches capacity or other market participants adapt to compete away its edge. Something smart is rarely permanent.

The industry's answer to this has been "innovation", however there may be signs that new products are beginning to stray from the original merits of the approach (low cost, diversified and robust long-term evidence).

Professor Campbell Harvey, of Duke University, has documented an exponential rise in academic papers published on different risk factors – from 20 per year in the early 2000s to over 50 per year currently. Unfortunately many of the factors are looking less robust – some aren't statistically significant when adjusted for the number of backtests*, and in some cases the results of the paper can't even be reproduced using their own data! The icing on the cake is that the Smart Beta products these research papers have spawned are charging fees on par with traditional active managers.

Whilst there are some decent strategies in this space, investors who are blindly adopting strategies on the basis that they are "innovative" may be in for a nasty surprise when out-of-sample results fail to live up to promises made on the back of simulations.

Robo-advisers

Claims of an imminent technological "singularity" for investment advice are probably somewhat exaggerated. Having access to an additional lower-cost option for investors is unarguably beneficial, however it is difficult for an entire industry to be fully displaced by automation when human interaction is itself part of the value proposition.

This is where it is important to distinguish between the provision of a service (a wealth manager) and the sale of financial products (an asset manager).

Trust

Tradesmen in many industries continue to thrive purely through word-of-mouth, despite lower-cost options available at the click of a button. The value a client places on trust (whether misplaced or not) can't be quantified in basis points. This value will vary greatly between people, but individuals whose utility function for trust is such that they will prefer a builder, lawyer or financial adviser they know on a personal level, will always remain.

Education and comfort

There are many self-starters who are comfortable teaching themselves purely through textbooks and Wikipedia.

But there are always those who respond better to human explanation, particularly for something as complex as financial markets. Teachers have the capacity to explain a problem in as many ways as needed and can reassure a student.

Given the long-only bias of their portfolios, the big litmus test for robo-advisers is how they can prevent panic selling in the next financial crisis.

The reality is that we are no more special than the generations that came before us and change is a permanent feature of human history.

Unbounded irrationality

At its most basic, automated advice is similar to a doctor who gives out prescriptions based purely on patient age and income. Investors have their own preferences and sensitivities to risk – rightly or wrongly, they seldom want the optimal portfolio (and often unapologetically so). Risk is not a number, and a tailored portfolio a client is willing to stick to is more likely to keep them invested long enough to enjoy the wonders of compounding. There may come a day when machine learning enables the mathematical modelling of an infinite spectrum of client preferences – until then, human interaction will have to fill this gap.

Behavioural finance and market inefficiency

Since the collapse of 2008 there has been an exponential rise of interest in behavioural finance, at the expense of traditional finance theory such as the Efficient Markets Hypothesis (EMH). Whilst Fama and Shiller shared two thirds of the Nobel Prize in 2013, it is Shiller's followers who seem to have experienced a much greater rise in mainstream popularity more recently.

Is there a bubble in the word bubble?

When every investor and their grandmother have rising interest rates as their top concern, it seems inconsistent to presume that asset prices are in a bubble due to some irrational exuberance. If financial markets are totally inefficient and independent of fundamentals today, then it is cognitive dissonance to invest on the assumption that they will reflect intrinsic value some day in the future without assuming some degree of market efficiency. The persistence of mean reversion as an investment strategy is as much a vindication of EMH as it is of behavioural finance.

Similarly, a regular marketing pitch for active managers is that the rise in assets under management (AuM) of passive investments has led to more inefficiency and opportunities. The problem is that investing remains a zero-sum game: for an active manager to outperform, another active manager has to underperform. Passive investors cannot be their source of alpha since they simply follow the index, which represents the net views of all the market participants within that universe of securities. So as pro-cyclical fund flows leave underperforming managers in favour of passive, it is increasingly the best investors who remain to fight over the alpha. If it is a smaller number of more informed stock pickers who are allocating capital for the indexers to follow, one would argue the market is now more efficient, not less.

A natural reaction to any unforeseen event is to assume a theory is obsolete simply because it didn't predict with 100% accuracy. But whilst a world inhabited by human beings will never have fully efficient markets, they might still in fact be less inefficient than we think – particularly as we become increasingly aware of our biases. ■

*Source: *..and the Cross-Section of Expected Returns* – Harvey, Liu and Zhu (2015).

Ainsley To is an analyst for the multi-asset team at Credo capital, undertaking cross asset research in asset allocation as well as fund selection. Prior to Credo, he also worked at Stamford Associates, Fidelity and Bloomberg. Ainsley has been a CFA charterholder since 2014.

By Anet Ahern

FINANCIAL SERVICES REVIEW

RDR: Fewer ill-advised and more unadvised?

The lead-up to the implementation of the Financial Services Board's (FSB's) Retail Distribution Review has already sparked some changes in the financial services industry. What will its impact be?

The RDR aims to review and improve the financial services South Africans have access to, the relationship between financial product providers and financial advisers, and how advisers are paid.

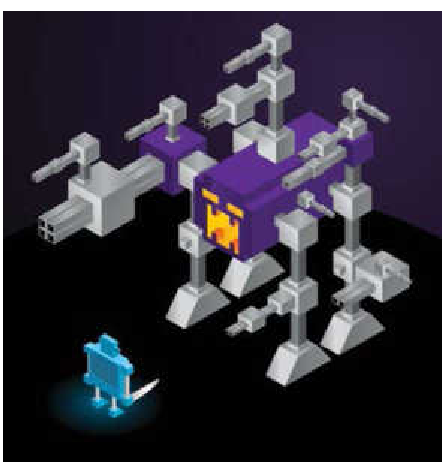
A Cass Business School report on the impact of RDR on the UK market for financial advice lists several key findings. What will these likely developments mean for individual investors in South Africa?

Fewer, larger firms and tied agents

As firms realise that it is expensive to comply with all the regulations and administration requirements, smaller firms are likely to find it harder to survive, largely because of the following reasons:

- Not meeting the minimum standards for professional requirements;
- Increased costs due to regulatory requirements;
- Inability to adopt the required business model;
- Increased costs due to the RDR.

In all likelihood advisers will combine forces, or join larger firms. When it comes to the type of adviser, the investor will now know upfront whether the adviser is truly independent or linked to a product provider such as a life assurer. This is good news for end-investors as the adviser businesses that remain are likely to be more robust and solid, with better continuity and recordkeeping. Investors will have more clarity around the range of products offered. It is much better to be told upfront that a large number of the funds recommended to you will be from the adviser's firm, than to wonder whether these are surreptitiously being pushed onto you.



IFA alliances and teaming up

Truly independent advisers will probably form more Independent Financial Adviser (IFA) hubs, or alliances with Retail Asset Consultants for services ranging from research to product structuring. In this way, IFAs can tap into the scale provided by a research team's efforts, as well as the administration and portfolio construction services they offer. If one team researches funds for 10 or 100 investors, the effort is the same. All of these developments aim to free up the adviser's time to focus on their advice process and the servicing of their clients – definitely a plus for investors.

The use of platforms

IFAs are expected to continue using investment platforms as it helps with reporting, which is becoming more onerous. This provides a single contract point, consolidated reporting and ease of transacting. In the Cass report, functionality and the variety of products made up 63% of the reasons for choosing a particular platform. This is good news for investors as they will benefit from the ease of dealing with one or two platforms as opposed to several management companies.

Growth in direct business

There is likely to be a large number of smaller clients that IFAs will be unwilling or unable to service. This creates an opportunity for firms that are able to build a light-touch, high-tech service model to look after these clients. The risk here is that a large portion of clients may miss out on proper advice, which leaves them susceptible to knee-jerk portfolio actions and a departure from a solid long-term plan – responding to hype, sentiment and media in the absence of a sage adviser who sees the bigger picture. However, for those firms who can responsibly adapt their business model, this creates an opportunity. Of all the developments following RDR, this is the one area where the investor has to be careful when operating without advice. As these capabilities are developed, the framework within which the direct investor operates will improve, but there is always the risk that direct clients do not take their time horizon, future needs and tax considerations into account when making changes.

> **The biggest risk following RDR lies with the large number of clients who may be squeezed out of the advice process.**

To summarise

Investors will most likely deal with a tied agent, a truly independent financial adviser who will prefer larger clients, or directly with the product providers. A new business model may emerge for investors who do not qualify for servicing via an adviser or tied agent. Product providers' engagement with direct clients can include aspects of robo-advice or merely access to product choice and online research. The biggest risk lies with the large number of clients who may be squeezed out of the advice process. It is expected that the market will respond to this need in order to provide the service.

Those who can afford advice are likely to be serviced by fewer, larger, more robust firms. Those who may no longer qualify are likely to have more sophisticated options in the direct market space ... in time. ■

Anet Ahern is the CEO of PSG Asset Management. She has 30 years' experience in the investment management industry spanning fund management, operations, multi-management, global investments and the management of asset management firms.

By Colin Habberton

INVESTORS VS CONSUMERS

What pension funds can learn from Sanral's e-toll battle

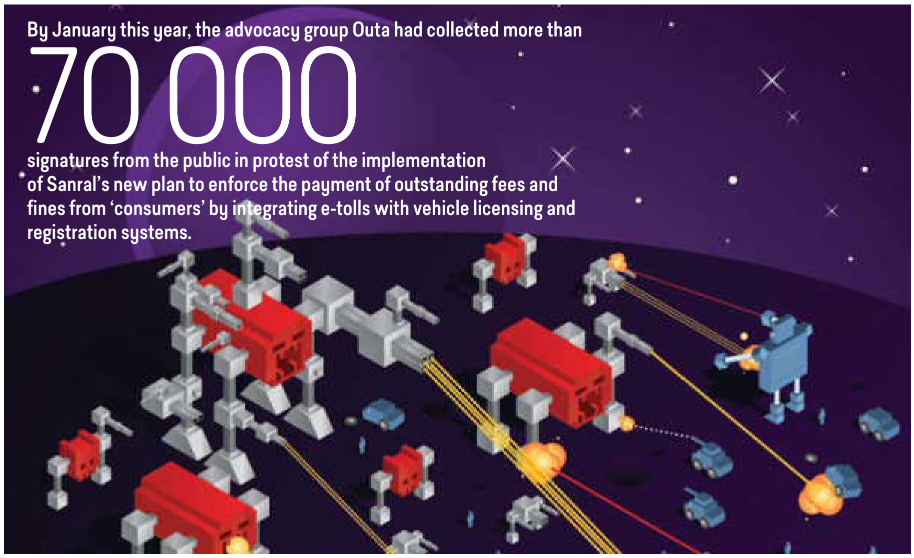
In a landscape being shaped and defined by disruption, the financial services sector needs to consider breaking down the barrier between 'investors' and 'consumers' in order to move into the future.

The numerous #mustfall campaigns of last year provide a vivid reminder of the inspiration, hype and impact of popular opinion converging towards a common cause. Icons and issues, old and new, faced the fury and force of groups of people translating their frustrations into action.

Looking back, we have one less statue, frozen university fees and a country whose president is not immune from being the subject of an uprising. There are mixed views regarding whether these campaigns achieved their objectives and, more interestingly, if and where they might flare up again. Despite the debate, they were all encouraging signs that we live in a democracy where 'the people' still have the power to influence social and political change.

As we prepare for what lies ahead, is there something that the savings and investment industry could learn from these experiences in reflection of the disruptive changes occurring within South Africa and across the rest of the world?

As we prepare for what lies ahead, is there something that the savings and investment industry could learn from these experiences in reflection of the disruptive changes occurring within South Africa and across the rest of the world?



Disruptive dynamics

The phased implementation of the Twin Peaks legislation has kept industry in a constant state of flux with what seems to be a relentless flow of regulatory changes to protect consumers and professionalise the sector in South Africa. These changes have certainly played a disruptive role in the lives of financial professionals and the businesses they serve and lead. The FAIS Act has spawned a host of new compliance experts, training, examinations and costs over the past decade.

Amidst these new rules of our game, the more recent focus has been the implementation of the Treating Customers Fairly (TCF) policy. As the name suggests, this aspect of the new regulations demands financial service providers adopt an attitude to their clients that proactively takes into account the way in which they might understand the substantive and procedural details of the financial products and services they seek and purchase.

Where worlds collide

Over the past few years, TCF has become increasingly acknowledged and applied to financial services processes and products.

A question worth asking is whether customers *themselves* are aware of the extent to which the new regulations governing our industry are weighted in their favour. More importantly, should customers reach a full understanding of their rights and take action, how that might disrupt the core of the savings and investment landscape.

The demands of the TCF framework go far beyond the process of getting clients to sign acceptance for advice offered. A topical example to illustrate what I believe is the prevailing existence of two worlds in the savings and investment industry is the controversy surrounding e-tolls and the Sanral bonds that underpin them. The one world is what is referred to in the media and common industry parlance as "investors". The other world is "consumers".

In October last year a new issuance of Sanral debt was oversubscribed by investors supported by a new plan devised by Sanral to enforce the payment of outstanding fees and fines from consumers by integrating e-tolls with vehicle licensing and registration systems. By January this year, the advocacy group Outa had collected more than 70 000 signatures from the public in protest of the implementation of Sanral's aforementioned plan. At this point in public discourse, there is little cognisance that the consumers and investors might well be the same person.

The investors purchasing Sanral debt include the PIC and other asset managers, based on the expected return of that financial instrument in lieu of their investment mandate from their clients, the owners of investable assets. To a large extent, the ultimate sources of capital in South Africa come from pension funds and pooled retirement savings of individuals.

Now, one can only surmise how many of those individual investors, albeit indirect, are the same people signing the petitions to end e-tolls. They unknowingly are funding the object of their discontent through their retirement savings while being forced to pay the fees and penalties to meet the expectation of the institutions that manage their assets. The complexity of this conundrum is amplified when you consider the effect of a possible default on Sanral debt and how this might contribute to further downgrades of the asset itself, and further ripples that could affect our sovereign debt status and currency. As consumers take action against e-tolls they inadvertently undermine the returns on the long-term investments of their hard-earned savings.

If the TCF principles were strictly applied to this example, could the FSB hold financial professionals accountable to treating their customers fairly? It would be difficult to defend the fairness of investing in the likes of Sanral bonds without their customers' knowledge – in particular the individuals that supply the pools of the capital they manage.

Power to the people

We live and work in a world that is becoming increasingly transparent due to the ease of access and sharing of information. Consumers demand convenient, cost-effective access to products and services. The likes of Uber and Airbnb have disrupted entire industries, while investors in these new business types reap the benefits of these innovations. The savings and investment industry is not immune from similar disruption and new opportunities.

A lack of transparency in the investment decision-making process is likely to be challenged by increasingly informed and demanding customers.

The summary characteristics of disruptive change, as described by experts, are surprise, speed and significance. Kodak did not foresee and appropriately adapt to the emergence of digital imaging; Encyclopedia Britannica did not survive the rise of Wikipedia. Their respective collapses may have seemed quick to observers, perhaps even their investors, but the processes that led to the change took place slowly but surely in a direction driven by customer needs and choices.

A lack of transparency in the investment decision-making process is likely to be challenged by increasingly informed and demanding customers. Crowdfunding platforms and other investment innovations are breaking down traditional barriers and spreading across the world. Our regulator's TCF principles require financial services providers to proactively increase the level of transparency to customers regarding the ways and means of our industry. These forces – from the demand and supply side of our industry value chain – are consistent and appear to be converging.

Our customers are the source of our survival. They have the power to radically change the way we do business. The best response may be for us to pierce the veil between investor and consumer and invite those same customers to play a part in defining the future of our industry or we might be the next subject for a #mustfall. ■

Colin Habberton is currently the CEO of PayProp Capital, a risk management solution provider to the real estate sector. In his spare time he is completing his PhD research focused on the investment value chain at the University of Stellenbosch Business School.

By Anne Cabot-Alletzhauser

THE SOUTH AFRICAN CONTEXT

What will *really* disrupt SA's financial services industry?

Recently, the definition of disruption and the concepts that can be defined as disruptors were up for debate. We unpack this issue and put it to the test within a South African financial services context.

As 2015 drew to a close, and South Africa appeared to be on the brink of 'disruption' (or at least intense fragmentation) on a number of different fronts, a much milder war of words was unfolding between the *eminence grise* of disruption theory, Clayton M. Christensen of Harvard Business School, and *The Economist.* At issue was: what really constitutes disruptive innovation in the business world and which concepts are really worthy of the title? Why should we care about such a fine theoretical point? Because grasping the distinction has far-reaching implications for where the financial services industry may well need to go if it wants to stay relevant in South Africa. More importantly, we don't believe the financial services industry is remotely paying enough attention – not just to *potential* disruptions, but to *necessary* disruptions if the industry is to play a meaningful role in South Africa's future financial stability and growth trajectory.

> ...the financial services industry is [not] remotely paying enough attention [...] to *necessary* disruptions if the industry is to play a meaningful role in SA's future financial stability.

In Christensen's notion of disruption, for example, it is questionable whether Uber, as a business, should be held up as a disruptive business model. Christensen argues that Uber's model (although highly successful) failed to fulfil several critical tenets of disruption theory. It's incursion into the world of taxi servicing did not really introduce an alternative that was so much lower priced, simpler, or differently positioned as to open up taxi services to a whole new market of consumers. Effectively, by making the taxi experience that much more appealing and convenient, the current consumers of taxi

services simply switched their allegiances. In other words, Uber represented an excellent case of a traditional product performance trajectory where the process of elevating the quality and breadth of an existing business model simply happened at such a highly accelerated rate that the incumbent was left in the dust.

Christensen argues that if we don't really understand what we are competing with, our strategy for countering its challenge could be misguided. How a business responds to an interloper who is nibbling away at its current client or customer base with a more appealing variation of an existing service is very different to how they would need to respond to a disruption threat that was addressing a totally different and unperceived need or service – one that would be operating from a totally different cost base. Over time, this new value proposition would quietly evolve to the point that it is far more compelling than the incumbent offering. So, while the interloper may appear to have been operating in a totally different space and appealing to a very different market, the true disruption occurs when your market also converts to this new value proposition.

Using Christensen's interpretation of disruption then, what really are the points of vulnerability for the financial services industry in South Africa? Do such concepts as passive investing, smart beta, robo-advisers and the like really constitute disruptions in their world?

Certainly the concepts mentioned here challenge the existing business margins of mainstream financial services companies. Profitability will most likely be negatively impacted over the short term. But because regulatory change is playing a significant role in forcing the hand of companies here, shareholders will likely understand the new landscape and play a waiting game for now. We don't see many companies going out of business with these changes, as such.

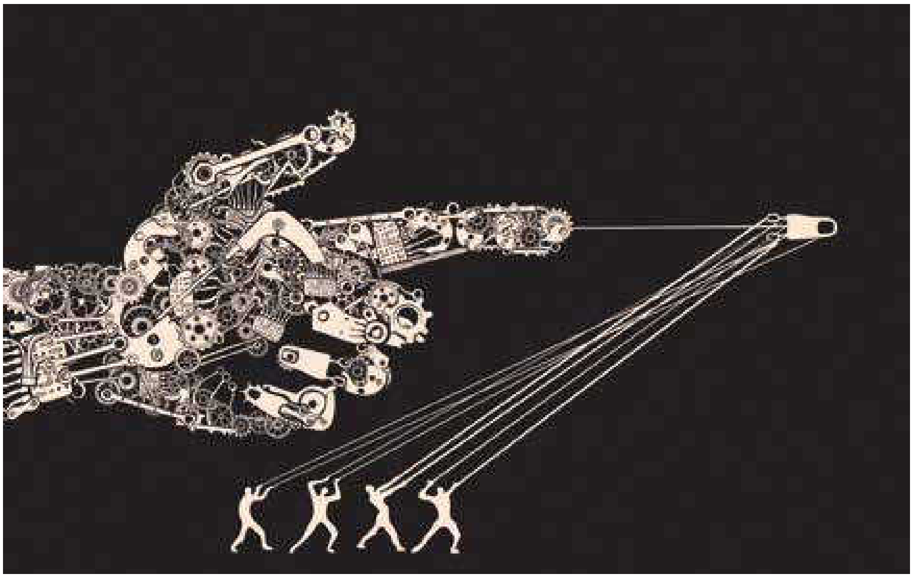
And for sure, many of the perceptions of where the industry adds value are likely to be further challenged, i.e. that asset managers have skill and can add value or that financial advice can't be offered in a formulaic or algorithmic fashion far more objectively and cost effectively. So robo-advice will likely draw in (or back) investors who have become disaffected with those initial promises.

But let's put these innovations to the Christensen test: how likely are these innovations to open up the world of finance and investing to a whole new market – to mainstream South Africans?

Passive and smart beta strategies may lower fees but the quantum difference does not suddenly make investing accessible – that's not the only cost in the delivery equation that needs to be addressed if we are genuinely going to service savers who, realistically, will need to be able to save and invest for the future in cent-by-cent increments. And robo-advice may mean you can reach a far broader market than you could when you compare it to the world of one-on-one financial advice. But robo-advice's viability is predicated on two (potentially three) conditions: that the user has a minimal degree of fluency around technological and financial concepts, that the individual understands how to meaningfully integrate financial products or thinking into their lives, and – finally – that the individual has access to discretionary funds to act on the robo-advice. All of those conditions are hugely problematic in the South African context.

Perhaps the answers to our questions rest in a better understanding of the Christensen/*Economist* debate that we alluded to at the outset. *The Economist* article suggests that Christensen's definition of "disruptive innovation" simply isn't broad enough or evolved enough to address today's business challenge. (Christensen probably wouldn't disagree.) What *The Economist* feels is missing, is the recognition that when you disrupt an industry by reinventing a whole category of product (as Apple has been able to do with the iPhone in terms of developing its abilities such that it transforms into an all-purpose computer), it doesn't really matter which end of the market is really attacked: low- or high-end. In addition they suggest that true disrupting success comes when a business is able to eliminate critical "pain points" in an industry. When that occurs the new model is able to not just open up the gates to a new market, but instantly captures the old market (without Christensen's requisite long lead times for the disruption process). Under this definition, the Uber model becomes disruptive.

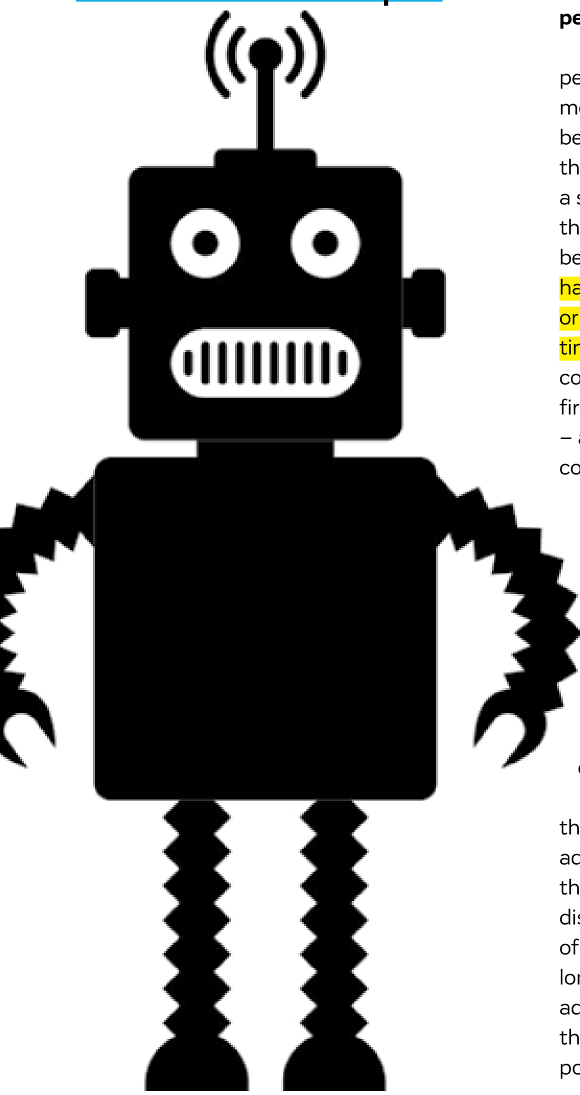
So here then is our answer: To truly disrupt the South African financial services industry such that it not only opens the market up to millions of South Africans, but meaningfully addresses their needs and "pain points", we would need to go significantly beyond the "surface fine-tuning" provided by robo-advice, passive investment strategies, or the addition of new asset classes.



We would need a service provider who could conceptualise and deliver on the following:

- **We need products that actually help/teach people how to solve the real financial problems they face – holistically.**

Imagine an aid scheme where the focus now shifts to securing financial stability ... every employee, no matter what their financial starting point, would be provided with equal access to financial advice, financial coaching and financial roadmaps...



Let's use one simple example: If housing is a top priority for me and my family, how do I construct a roadmap that gives me that step-by-step process to realising that dream? This is not just a question of getting access to financing; it's about taking people through the whole complex process of knowing how to re-arrange their budgets and buying habits to secure that funding; how to build up the necessary credit profile; how to navigate all the complex legal and regulatory aspects that home ownership entails; how to help them determine which protections are worth having to protect this asset ... and which aren't really. Effectively, what if the product I got from my financial service company gave me all that – with the full knowledge that at day one I have nothing but my existing salary?

■ **We need a framework that allows people to affordably save and redistribute literally pennies at a go.**

All the goodwill in the world about helping people learn how to employ their income more effectively pales under the challenge of being able to administer a tiny quantum in the system. When you are starting with only a salary and existing budgetary constraints, the only way to turn the ship of fortune will be incrementally. Right now, our industry has neither the patience, the know-how, or the appetite to engage here with these tiny increments. That said, financial service companies that don't address this challenge first and foremost will be ripe for disruption – and at this point in time, that pretty much covers the whole of our existing industry.

■ **Finally, we need a business model where the product you are selling is effectively open-access to the advice and coaching that is relevant to that individual's long-term aspirational needs and provides the individual with the necessary protections along the route to give them their greatest chance of meeting those needs.**

If this sounds like something that you think already exists, think again. Our financial advice industry is predicated on the fact that individuals who come to them have disposable income that either needs a home of some kind or that can be applied to some long-term agenda. Our current financial advice industry couldn't remotely cope with the real needs of the broader South African population – primarily because the gap between debt (financial crisis) and financial well-being has yet to be effectively bridged by our industry. This must be the critical starting point.

But what if we, or our employers, changed our mindset? What if we began to think of financial stability and financial well-being with the same mindset that is applied to an employee's physical and mental well-being?

Employers already intuitively understand that there is a link between employee health and productivity. As such, most are quick to insist that their employees are provided with the protection of a medical aid scheme. This scheme, in turn, provides them (to varying degrees) with access to emergency care, health professionals and specialists, and whatever resources might be necessary to cure or keep people healthy. For many schemes the focus is equally strong on being proactive around one's family's health. By providing constant rewards and nudges to be proactive about our health and diet, the thinking is that this will keep medical care demands to a minimum.

Surely it's in employers' interests to keep their employees financially stable as well?

The more we understand about employee well-being and stability the more we appreciate that the link to productivity is just as strong when it comes to financial stability. As such it seems only logical that we address this aspect of our employees' well-being with the same resolve.

Imagine an aid scheme where the focus now shifts to securing financial stability. Under this new convention, every employee, no matter what their financial starting point, would be provided with equal access to financial advice, financial coaching and financial roadmaps that would enable each individual to either get a leg up to the next level of financial viability or to, at minimum, hold them on a steady course to financial stability.

Now we're talking disruption! It's a disruption set to impact the entire employee spectrum. It's a disruption that has the potential to completely change the way people engage with the industry. It's a disruption that could reverse our notions of trust, and route the concept of "service" back into financial services.

Interested now? ■

Anne Cabot-Alletzhauser is head of the Alexander Forbes Research Institute, an initiative that looks at the full spectrum of savings, investment and wellness issues that confront South Africans in particular, and Africans in general.

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DIRECTORS DEALINGS

COMPANY	DIRECTOR	TRANS. V	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ARGENT	TR Hendry	15 January	Purchase	360	380	1,368	19 January
ARGENT	TR Hendry	17 January	Purchase	210	380	798	19 January
BUILDMAX	TP Bantock	11 January	Purchase	315,823	19	60,006	13 January
CAPITEC	G Pretorius	18 January	Purchase	1,000	45999	459,990	20 January
CAPITEC	R Stassen	12 January	Purchase	5,000	48376	2,418,800	14 January
DCENTRIX	AS Mahomed	8 January	Exercise Options	3,500,000	343	12,005,000	14 January
EFFICIENT	AP Du Preez	13 January	Purchase	150,000	420	630,000	14 January
EOH	JW King	15 January	Purchase	2,300	12033	276,759	20 January
GOODERSON	Swanepoel	13 January	Sell	23,983	50	11,991	14 January
INGENUITY	J Solms	15 January	Purchase	93,550	85	79,517	19 January
NVest	RM Mcintyre	15 January	Purchase	112,738	300	338,214	19 January
PERGRIN	RE Katz	18 January	Purchase	8,350	2629	219,521	20 January
PNR FOODS	PM Roux	12 January	Sell	100,000	14024	14,024,000	13 January
PSG	MM Du Toit	14 January	Purchase	100,000	19007	19,007,000	19 January
PSG	JJ Mouton	12 January	Purchase	650	18545	120,542	14 January
PSG	JJ Mouton	12 January	Purchase	141,587	18477	26,161,029	14 January
RBPLAT	MJL Prinsloo	30 December	Sell	2,191	2700	59,157	13 January
SAFARI	JP Snyman	12 January	Sell	11,135	820	91,307	13 January
SAFARI	JP Snyman	12 January	Sell	604	820	4,952	14 January
SPAR	HK Mehta	11 January	Purchase	800	17000	136,000	14 January
TRANSCAP	DM Hurwitz	14 January	Sell	165,829	1198	1,986,631	19 January
WESCOAL	W Sulaiman	14 January	Purchase	120,000	83	99,600	19 January

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Beige	2	100
Tawana	5	25
Assore	6990	24.82
Buildmax	20	17.65
DRDGold	400	17.65
WORST		
Cenrand	87	-53.48
Nutrition	2	-33.33
Lonmin	968	-25.25
Mr Price	15359	-20.42
Mineresi	4	-20

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	47 627.75	-1.62
JSE FINANCIAL 15	13 962.15	-2.24
JSE INDUSTRIAL 25	68 259.73	-1.02
JSE SA LISTED PROPERTY	570.24	-4.62
JSE SA RESOURCES	12 839.56	-1.39
JSE TOP 40	42 872.39	-1.27
CAC 40	427 226	-2.72
DAXX	952 185	-4.64
FTSE 100	587 680	-1.41
HANG SENG	1 963 581	-1.50
NASDAQ COMPOSITE	447 695	-1.09
NIKKEI 225	1 704 837	-3.77
S&P 500	188 133	-0.47

*Percentage reflects the week-on-week change.

P/E RANKING

SHARE	FORECAST
KUMBA	2.24
BASIL READ	3.3
MERAFE	4
M&R HOLDINGS	4.39
AVENG	4.45
OCTODEC	4.78
LEWIS	4.95
ASTRAL	6.14
RAUBEX	6.14
BARLOWORLD	6.15

EPS RANKING

SHARE	F'CAST (C)	F'CAST AS %*
BAT	4395	5.2
NASPERS-N-	4290	2.4
SASOL	3662	10.2
SABMILLER	3105	3.2
CAPITEC	2755	6
NEDBANK	2280	13.5
BIDVEST	2121	6.6
TIGER BRANDS	2100	7.8
MONDI LTD	2041	7.2
REMGRO	1745	7.5

*Forecast EPS as a percentage of current share price

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
REBOSIS	120	13.5
BHP BILLITON	1751	11.8
LEWIS	517	11.3
MTN GROUP	1307	10.9
ASTRAL	1000	10.3
VUKILE	148	9.8
CORONATION	481	9.8
DRDGOLD	39	9.8
EMIRA	146	9.7
OCTODEC	203	9.7


Lonmin Marikana platinum mine in the North West.


Ben Magara
CEO of Lonmin

All data as at 20 January at 17:00. Supplied by INET BFA.

HOW TO RIDE OUT THE STORMY MARKETS

By Ciaran Ryan

With China's economy slowing, concerns over interest rates in the US, a bear market looming in most of the world's major equity markets and South Africa-specific risk keeping investors at bay, where should we take cover in 2016?

global markets had the worst start to the year on record, with equity indices in Japan and Europe falling 10% and the S&P 500 declining 8.8% in the first two weeks of January. At the time of writing, the JSE's All Share Index was down nearly 14% in rand terms from its April 2015 high of 55 188.34, according to INET BFA data. A decline of 20% is traditionally seen as a bear market.

In dollar terms, the local market has fared even worse. A year ago the rand was at R11.60 to the US dollar. It breached R17.90 against the dollar for the first time in a "flash crash" in thin Asian trade on 11 January, before recovering to around R16.65 at the time of writing. If ever there was a metaphor for SA's parlous economic state, this was it.

As to where the rand will go from here, all bets are off. There's talk of R19 to the dollar and worse by the end of 2016. Once it breached R16 to the dollar, the rand's technical moorings were sundered and traders saw it as a runaway train.

A recent report by Nomura puts the rand at anywhere between R19.33 to R17.36 to the dollar by year-end, which now looks eerily within reach. The bank estimates fair value for the rand, based on one purchasing power parity (PPP) calculation, is around R12.26. But that may be some way off.

The trigger for the latest bout of bloodletting was China. It devalued its currency at the start of the year, prompting an exodus of capital and a massive sell-off of equities (see sidebar). There is concern that China's economic ship, which has been a key driver of the global economy, is faltering. The country reported GDP growth of 6.9% in 2015, down from 7.3% in 2014 and the slowest pace in 25 years.

In a recent note, Capital Economics suggests growth has been "closer to 4% than the 7% of the official figures". However, it said growth seems to have stabilised in recent months, and that the collapse many were worried about in mid-2015 has not materialised.

A handy rule of thumb for currency traders is to butcher the rand each time there is an emerging-market scare. It just happens to be the most tradeable target out there. But the consequences for South Africa are dire.

The Reserve Bank will now be under pressure to stem the inflationary effects of the weakening rand by hiking interest rates this month, with further increases likely later in the year. If this happens, recession is a virtual certainty towards the middle of the year. That trashes any hope of creating jobs or boosting tax revenues. Austerity, whether we like it or not, will be imposed on SA.

All eyes on Gordhan

Finance minister Pravin Gordhan, who believes SA can avoid slipping into recession this year and says government will do everything possible to avoid a credit ratings downgrade to junk, will have to cut Treasury's growth forecast of 1.7% for 2016 in the February Budget (the International Monetary Fund cut its growth outlook for SA to 0.7% for 2016, and 1.8% for 2017). He is also expected to elaborate on cabinet's measures to help boost the economy.

SA bonds are already flirting with junk status and a further ratings downgrade will confirm this. The yields on SA bonds – the premium demanded by investors to hold local bonds rather than US Treasury bonds, which are seen as risk-free – surpassed the average for its emerging-market peers for the first

Pravin Gordhan
Minister of finance

HOW THE PANIC STARTED

The tough start to 2016 was kicked off by a 1.5% devaluation of the yuan against the dollar in the first four trading days of January (its total devaluation in 2015 was a mere 4.4%, according to the *Wall Street Journal*). The volatility was attributed to the release of negative manufacturing data which suggests China's economy is in worse shape than expected.

This triggered an exodus from Chinese stocks, which fell 7% on two trading days in the first week of January, sufficient to halt all trading in terms of "circuit breaker" rules introduced on the Chinese stock market. (These rules have since been changed to improve investor confidence.)

Concerns about the health of China's economy, combined with expectations of further interest rate hikes in the US, prompted a global equities market sell-off to the tune of more than $1tr.

In a note to investors on 8 January, Mark Mobius, executive chairman of Templeton Emerging Markets Group, said China faces a conundrum as it embraces market reforms that will likely increase currency and market volatility, while the government wants stability (see sidebar on page 41).

"Clearly, many investors are worried right now. As we see it, there is no question that China should continue to have strong growth this year, but one might say China is facing a bit of a conundrum. On the one hand, the government wants stability, but on the other, it is also striving toward more openness. That means we could see more volatility in China's market this year as these conflicting forces play out," says Mobius.

Nobel prize-winning economist Joseph Stiglitz told Bloomberg that while China's economy was slowing, it was not a cataclysmic slump. China is undergoing a major structural reorientation towards domestic consumption and away from export dependence, which its leaders hope will inoculate it against external shocks in the future.

Michael Hasenstab, chief investment officer at Templeton Global Macro, agrees that China remains on course, with GDP growth decelerating moderately toward the 6% mark over the next few years, while the economy shifts toward consumption, services and higher value-added manufacturing. This will support global growth in the face of a shaky European recovery and the prospect of higher interest rates in the US. A new round of infrastructure investment in China will provide some support to commodity markets.

"However, China's rebalancing from investment to consumption will also reduce demand for most industrial metals. This should support stable commodity prices in the next few years," says Hasenstab in a note to investors. He adds that China's trade with more advanced economies producing finished and industrial goods is likely to increase in the coming years, while trade with commodity producing countries – such as SA – is likely to drop.

China's consumption is now close to 60% of GDP and rising. This, combined with new interest rate liberalisation policies, "can redirect capital to the whole economy, particularly the private sector, which we expect to be the future driver of growth".

Finally, sustained wage growth implies that China should gradually export a more inflationary push to the rest of the world, reinforcing our view that, starting with the United States, the outlook for higher inflation rates and higher interest rates remains. ■

time on 18 January since at least 1998, Bloomberg reported.

Dawie Klopper, investment economist at PSG Konsult, says Gordhan has one of the toughest jobs imaginable on his hands to keep everyone happy in a [municipal] election year. "There is very little room for him to manoeuvre in this Budget. The tax base is not growing and yet he has to satisfy huge demands from the electorate. The government is under huge pressure to deliver in an election year.

"Gordhan, you must remember, was minister of finance when the public sector wage bill ballooned out of control. Nearly 40% of all taxes collected now pay public sector wages."

David Shapiro, director at Sasfin Securities, says while concerns about the Chinese economy affected all emerging markets, there is little to be optimistic about in SA. "Two factors indicate the extent to which investment sentiment has swung against SA: the rand hitting R17 to the dollar and the crack in the bond market in December, which looks as if it is now priced for a ratings downgrade."

Shapiro is concerned that government either does not grasp, or else does not care about, what is currently happening in the economy. "SA companies have been quietly shifting their capital abroad over the years to the point where roughly 70% of the JSE's earnings are now dollar-based. So SA companies are less concerned about what happens here, and that is a worry."

SA companies have been shifting their capital abroad for more than a decade, and the wisdom of that move is evident for all to see. Investors have simply followed this capital exodus, selecting companies which are hedged against the rand and SA political risk.

Momentum SP Reid Securities analyst Stephen Meintjes says if Gordhan's Budget does not pass muster, the rand could take another thrashing. "Gordhan will have to curtail spending somehow," he says. According to Meintjes the "markets will want to see some positive signals out of the Budget, and will be paying close attention to China to see if it stabilises – but that will probably only become evident after the Chinese New Year in February".

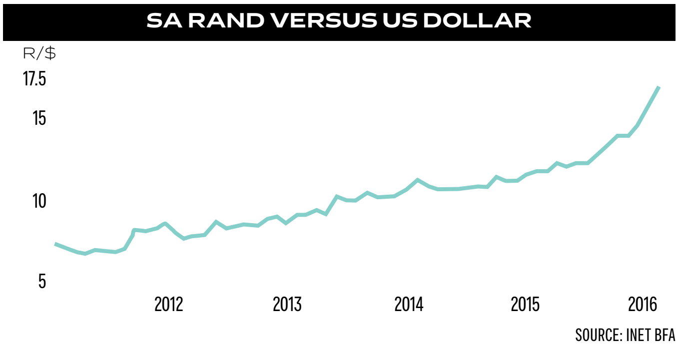
Opportunities amid the storm

Meintjes says there are always stock picking opportunities in times such as this, but advises

"Two factors indicate the extent to which investment sentiment has swung against SA: the rand hitting

R17

to the dollar and the crack in the bond market in December."



caution given the nervous state of markets worldwide. "Markets tend to discount the future, and we see opportunities in companies such as Coronation, Nampak, Bidvest and the Big Four banks, which are oversold in our opinion."

Klopper says PSG made a conscious decision a year ago to switch clients into hard currency-earning equities. "We sold out of emerging-market stocks such as MTN and Standard Bank because we were worried about emerging markets and the China story. We just followed the smart money – we followed companies that have diversified abroad."

According to Klopper companies that offer solid protection against the weak rand are Steinhoff, Mediclinic, Richemont, BAT, Bidvest and Capital & Counties. Other rand-hedge stocks include Aspen, BHP Billiton, SABMiller, Naspers*, Woolworths and Brait.

Shapiro says if one strips out the handful of heavyweight stocks that skew the returns on the JSE, it's clear the JSE is in a bear market.

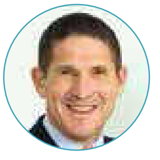
"Our advice to investors is to stick with quality companies that are relatively undervalued, with good cash flows and a proven track record of producing earnings: Nestlé, Google, Nike, Starbucks, Roche, and so on," says Shapiro.

"Financials and banks have been torn apart," says Shapiro.

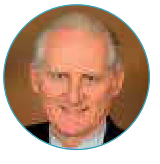
"Our best hope for the JSE in 2016 is a steady resources market, but that's premature from where we sit now.

"I don't think we are likely to see a contagion effect from China, but the other members of the Brics alliance are in for a difficult year. The data coming out of the US and Europe is not particularly alarming. We are seeing a lift in lending and manufacturing figures."

Dawie Klopper
Investment economist at PSG Konsult



David Shapiro
Director at Sasfin Securities



Stephen Meintjes
Momentum SP Reid Securities analyst

[C]ompanies that offer solid protection against the weak rand are Steinhoff, Mediclinic, Richemont, BAT, Bidvest and Capital & Counties. Other rand hedge stocks include Aspen, BHP Billiton, SABMiller, Naspers*, Woolworths and Brait.

The Africa story

If SA Inc's prospects look bleak, the story is little different elsewhere in Africa. Companies will have noted the massive fine levied against MTN for breaching Nigeria's cellular telephony regulations, while several SA companies have reported difficulty in repatriating money from Angola. "The Africa story is getting weaker," says Shapiro. "If you cannot get your money out of Angola, then why invest there?"

Geoff Blount, managing director of Cannon Asset Managers, says the situation today could not be more different than it was a decade ago when GDP growth touched 7.4% in the second quarter of 2005, inflation was at the lower end of the 3% to 6% target range, unemployment had fallen to 23.5% from 29.3% in March 2003 and foreign capital was flowing into the country. Today GDP growth is withering to almost nothing, inflation is likely to breach the upper end of the target range, unemployment is sitting stubbornly at 25.5% and there's a net outflow of foreign capital.

Geoff Blount
Managing director of Cannon Asset Managers

"Economies and markets move in cycles," says Blount. "They move from extreme optimism and overshoot on the positive side to extreme pessimism, overshooting on the downside. From an investor's perspective, it is easy to become hooked on the rand-hedge stocks such as BAT, Naspers and SABMiller given the negative mood we are in. But don't overlook opportunities to find good quality mid- and small-cap local stocks at attractive prices.

Today GDP growth is withering to almost nothing, inflation is likely to breach the upper end of the target range, unemployment is sitting stubbornly at **25.5%** and there's a net outflow of foreign capital.

"Many of our medium to smaller firms are nimble, flexible, entrepreneurial, often manager-owned and have the ability to grow earnings respectably in this tough environment (and often have surprisingly large non-rand earning streams).

"Many are delivering double-digit growth while also trading at relatively low P/E multiples compared to the market P/E multiple of 18.3 times and earnings growth of 8%." ■

**finweek* *is a publication of Media24, a subsidiary of Naspers.*

CHINA'S REFORMS

In November 2013, at its Third Plenary Session, the central committee of China's Communist Party adopted what *The Economist* described at the time as China's "most wide-ranging and reform-tinged proposals for economic and social change in many years". Highlights from the *Decisions on Major Issues Concerning Comprehensively Deepening Reforms*, as the committee dubbed the document, include the following:

1. Deregulation: Private sector allowed into most industries currently reserved for government.
2. Opening up: Foreign companies allowed greater market access to services industries.
3. Financial liberalisation: Private sector encouraged to establish financial institutions, accelerate interest rate deregulation, and accelerate toward capital account convertibility.
4. Land and Hukou reforms: Legal titles of land use rights and rights to transfer. Improved social services for migrant workers.
5. Resources pricing reform: Oil and gas, water and other resources will be better allocated.
6. State-Owned Enterprise (SOE) reform: Improved efficiency and resources allocation.
7. Fiscal reform: Property tax to enhance local government revenue stability.
8. Social security reform: Consolidate pension system and transfer SOE shares to the pension system; private medical services will also be promoted.
9. Developing of bond market: Local governments can issue bonds independently; risks are better priced.
10. Relaxing of one-child policy: Enhance long-term growth potential and promote consumption over the medium term.

SOURCE: The Third Plenary Session of the 18th CPC Central Committee, 2013. Higlights compiled by Templeton Emerging Markets Group.

An outside view of the Great Hall of the People alongside Tiananmen Square, Beijing, China.


Getty Images/iStock Images

IS NOW THE TIME TO LOAD UP ON GOLD?

Getty Images/iStock Images

The price of gold, a metal that is traditionally seen as a safe haven in times of turmoil, kicked off 2016 with a rally to $1 113 an ounce, a two-month high, before settling back to $1 087 at the time of writing. The gold bulls see this as the first bloom of spring in the long-awaited bull market.

South African miners like Harmony Gold and Sibanye Gold, who have benefitted from a record gold price in rand terms, have seen their stocks rally on the JSE since trading started in January, with Harmony gaining 73% and Sibanye jumping 48%. The JSE's gold mining index is up nearly 30% since the beginning of January, compared with a 6% decline in the All Share Index.

But not everyone is bullish on gold. Bernard Dahdah of French investment and bullion bank Natixis – who was spot-on in his forecast of an average price of $1 160 an ounce in 2015 – forecasts a drop in price to below $1 000 an ounce in the first three months of 2016, declining gradually from there to end the year at $950. (Barclays is forecasting a 2016 average price of $1 054 an ounce, close to 2015's low of $1 050, while HSBC is expecting a more bullish average of $1 205, partly driven by an expected weakening in the US dollar.)

Dahdah forecasts that gold prices "will be mainly driven by the expected path of interest rate hikes" from the US Federal Reserve.

The gold price in 2015 was driven primarily by the strength of the US dollar, says Dahdah. After the Fed hiked interest rates last year for the first time in a decade, Dahdah warned clients that "higher interest rates mean a higher opportunity cost of holding gold", because the metal pays no income.

This will lead to further outflows from physically-backed exchange-traded gold funds held by Western investors.

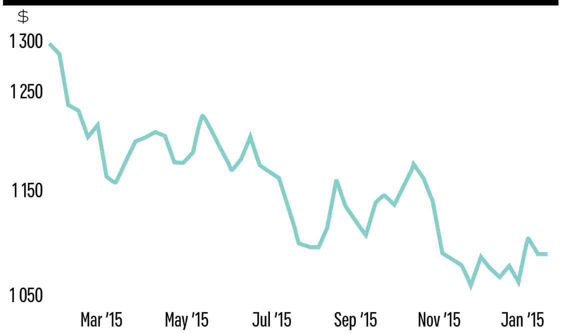
Meanwhile, UBS technical analysts Michael Riesner and Marc Müller warn the seven-year cycle in equities is rolling over. They argue that the S&P 500 is likely to peak in the second quarter of 2016 and then enter a full-blown bear market later in the year or 2017.

"Initially, we see gold profiting as a safe haven and as of 2017, gold could profit from the US dollar moving in a major top and starting a bear market," according to a report by Riesner and Müller, who argue that 2016 should see a "powerful bottom" for the yellow metal after a four-year decline from the high of $1 922 in 2011.

Jordan Roy-Byrne at TheDailyGold.com agrees that the bear market for gold is likely to continue in 2016, but the end of the bear market is in sight. "There are some positive signs for the gold stocks. Firstly, the sector, unlike gold, has not made a new low in recent months. That is a positive divergence. If gold stocks continue to hold their lows in the event of $1 000 gold, it would be a stronger bullish signal.

"In addition, some recent macroeconomic developments have greatly improved the fundamentals for some parts of the sector. The crash in energy prices is a huge boon for companies who own or operate open pit mines. Fuel can amount to 30% of the cost for those mines. Also, companies operating mines in Canada and Australia are benefitting from the collapse in those currencies. The majority of their expenses are in local currencies which have lost quite a bit more value in the past few years than gold. Some companies, because of these developments, are in a better position than they were a year and two years ago."

GOLD/US DOLLAR



SOURCE: INET BFA

Doug Casey of Casey Research, in a recent report to investors, says investors should be loading up on gold as a hedge against the financial mayhem wrought by central bank money printing since 2008 that is now out of control. Rising interest rates are generally perceived as negative for gold, as investors prefer interest-bearing assets. But gold has often performed best when interest rates are rising because of the propensity for interest earnings to be wiped up by currency depreciation.

Gold as a percentage of total financial assets is less than 1%. That's a mistake, says Casey, for anyone concerned about the long-term health of their assets. ■

editorial@finweek.co.za

on the money

THIS WEEK:

>> **Motoring:** Tough times not putting a dent in supercar sales *pg.46*

>> **Personal finance:** Make sure your money savvy is on point early on *pg.48*

CHIEF MARKETING OFFICER INTERVIEW

By Buhle Ndweni

Brand SA's plans to keep South Africa on the map

The damage caused by the finance minister debacle might seem catastrophic to most South Africans, but Linda Sangaret doesn't see it that way. She believes we should work together to move forward.

Linda Sangaret, the new marketing boss of Brand South Africa, has her work cut out for her. But ever the diplomat, she shows no concerns about joining the organisation tasked with creating a "positive, unified image of South Africa; one that builds pride, promotes investment and tourism, and helps new enterprises and job creation" at a time when the rand is trading at historical lows, investor confidence and economic growth is waning and a junk sovereign credit rating is seen by many as likely this year.

Speaking to *finweek* a few days after taking office, Sangaret says there are some easy strategies to implement for quick wins, including enhancing existing programmes and building stakeholder relations. She also plans for Brand SA to implement more collaborative projects with various countries across the continent. Currently Brand SA assists South African businesses, looking to establish operations in other African countries, with research and information about how South Africa is perceived in these countries in order to enable better relations within the market with locals and other stakeholders.

Internationally, Brand SA looks at various areas aimed at showcasing South Africa to a range of audiences as a trusted place in which they can invest and visit. Domestically, the organisation promotes active citizenship, social cohesion and getting South Africans themselves involved in what is going on in the country with programmes like Play Your Part.

Investors will continue to come to South Africa "because of our strong regulations, fiscal policies, banks that function perfectly and don't represent a risk to them. All of these things matter."

"My mandate is to protect [and enhance] the reputation of the country [and to] basically ensure we take all the actions necessary to put in place all the programmes necessary to make sure that we have a good reputation, and that our country image is as positive as possible, both domestically and internationally," she says.

Protecting SA's reputation

SA Inc came to a rocky end in 2015 after president Jacob Zuma's firing of finance minister Nhlanhla Nene to replace him with little-known ANC veteran Des van Rooyen wreaked havoc in the markets. Four days later, Zuma recanted and replaced Van Rooyen with Nene's predecessor Pravin Gordhan.

However, Sangaret does not think the country's reputation as a destination of choice for foreign direct investment (FDI) has been tainted. "You think the whole world was watching. I've lived outside South Africa for a very long time and often the whole world is not watching – the stockbrokers were watching," she says.

"We need to be aware that it is not going

to […] destroy South Africa as a nation, as a country with FDI that's coming in – and that has grown over the past two years – despite the economic meltdown," says Sangaret. "Yes, we have to show the world that we are a safe place to invest in, but our fiscal policies and economic policies throughout that period did not change. I think that's the crucial thing to underline and that is how we try to manage the reputation. Yes, maybe sometimes we sound overconfident, but it's important to look at the positive sides."

Investors will continue to come to South Africa "because of our strong regulations, fiscal policies, banks that function perfectly and don't represent a risk to them. All of these things matter. They will not take one incident and decide to scratch us from the map. South Africa is still going to stay on the map and this is what we want to tell South Africans," says Sangaret.

Sangaret emphasises that we need to remind South Africans of their own resilience, "We need to say 'When times are hard, when the rand is plummeting, that's when we need to [stand] together […] we have seen terrible things happen; we are people that overcome challenges, be it political or economic'."

The end of 2015 saw the #ZumaMustFall campaign get underway as some South Africans took to the streets marching in expression of their dissatisfaction with the president, demanding he step down from his position.

"We live in a free country, it's a democracy. […] You are free to speak your mind [within the limits of hate speech etc.] and say what you need to say and I think that has been respected by the government […] it has shown the world that we are allowing people to speak their minds freely," responds Sangaret.

The challenge is for South Africans to not only say what's on their minds, but to play their part in building the country.

Sangaret urges South Africans to play their part in moving the country forward. "You are going to have your say in the next elections.

"[…While you wait, think about] what it is that you can do to better your situation, because that's what it's about: it's about making life better for yourself [and] for everybody." ■

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FOUR THINGS ABOUT LINDA SANGARET:

What are you currently reading? I just finished reading a book entitled *Gabriel's Apology*, a 2013 novel by Andrew Herold. It's a very interesting and moving book about the lives of the disadvantaged in South Africa. It touches on issues of immigration, particularly poverty. It is a beautiful story that tells us what's happening on the other side of SA that some of us who are more privileged don't know about.

How are you keeping up your French? After 25 years of speaking French, the challenge is really keeping up my English. I plan to keep practicing French through my interactions with French-speaking West Africa, a part of the continent that Brand SA is looking to build its engagements with.

Favourite pastime: Spending time with my children; 12-year-old daughter Tandiwe and 10-year-old son Lamine.

What can't you live without? Family. The fact that I keep myself constantly surrounded by family and friends helps me to go forward all the time. They are my inspiration. My husband [Bernard], is a rock to lean on.

In a nutshell:

Linda Sangaret was born in Budapest, Hungary. Her late father, who was originally from Limpopo, met her Hungarian mother while he was in exile. She grew up in Zambia and Tanzania, and also spent some time in Hungary and Finland when her father was head of the World Peace Council. She finished high school in Zambia, where she achieved the highest grades in French in the country and was awarded a scholarship to study in France.

Shortly after she got to France, the ANC was unbanned, Nelson Mandela released and her parents moved back to South Africa from Zambia.

In June 1994, she too moved back to SA, but soon moved back to France where she worked as a South African diplomat between 1995 and 1999. In 2000, she finished her MBA at Canterbury Business School in the UK. From 2000 to 2005, she worked at Société Générale in France as their global communications and marketing manager, where she was in charge of implementing the bank's communications and marketing strategy in Asia and the Americas.

She took up the Brand SA position in January after spending nine years as South African Tourism's Country Manager in France, where she played a key role in positioning SA as a tourist destination for French tourists.

Image by Rowyn Lombard

By Glenda Williams

Supercars for the super-rich

Although the economy might be struggling, the local market for supercars appears to be alive and kicking – with the majority of these cars bought in cash.

The economy might be tanking, but that has not put a stop to the supercar audience, according to luxury car aficionados.

"A new assortment of global super-rich is pouring into South Africa. They're not only driving up the price of real estate, they are also driving the world's best supercars that would make even Sebastian Vettel jealous," says CEO of IBV Supercar Club, Ashok Sewnarain.

Aston Martin, Ferrari, Lamborghini, McLaren or Porsche are just a few of the iconic supercars that might make it onto the list of those with plenty of moola.

Considering the eye-watering asking prices that come with purchasing such a vehicle, it says much about the country's growing affluent and local petrol heads with a passion for cars. Even exclusive supercar clubs are springing up to cater to this growing market (see sidebar).

"They're mostly male, between the ages of 35 and 45, married, have no more than two kids, have a successful, entrepreneurial business, or are in a financial position where they manage other people," explains Sewnarain.

And it seems they pay for these super machines in cash. High-end luxury car importer and distributor, Daytona Group tells *finweek* that on average only 13% of its vehicles sold are financed.

South Africa now boasts 48 700 dollar millionaires, with African ultra-high-net-worth individuals expected to grow at 59% in the next 10 years, outpacing the projected global growth of 34% according to property consultancy Knight Frank.

Those stats must have been an attractive carrot to luxury sports car manufacturers so it's little wonder that Italian luxury car manufacturer Maserati recently celebrated its official return to South Africa citing the country as "considerable potential for Maserati and a unique opportunity to expand our company into a growing market". Among their line-up is the Ghibli with a R1.3m price tag while their flagship Quattroporte model sells for a cool R2.47m. In 2014 Maserati grew its worldwide annual sales to 36 500 units through entering new markets and new additions to its product portfolio. This was compared with the 15 400 sold in 2013.

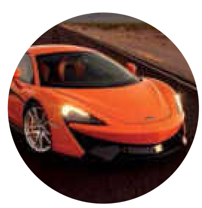
High-end luxury car importer and distributor, Daytona Group says that on average only **13%** of its vehicles sold are financed.

McLaren too has a presence in the country through retail partner Daytona. Daytona, which also holds the Aston Martin and Rolls Royce dealerships, boasts an annual turnover in excess of R3.5bn.

On average Daytona sells three McLarens

Assembled by hand. The Aston Martin V8 Vantage Coupé.

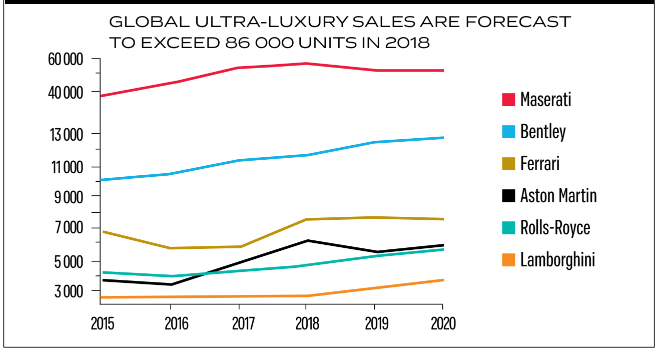
The entry-level Ferrari California T from the iconic 'prancing horse' marque.



McLaren's more 'attainable' offering, the McLaren 570S.

Images: Vivid Luxury/McLaren/Ferrari

RAPID RISE IN ULTRA-LUXURY VEHICLE SALES



	2015	2016	2017	2018	2019	2020
Europe	13 027	14 491	17 221	19 884	18 813	17 368
U.S	19 627	22 614	26 426	26 353	25 689	27 004
China	15 041	16 921	20 222	20 983	22 304	23 252
Rest of the world	14 332	15 545	18 003	18 928	18 535	17 990
TOTAL	**62 027**	**69 571**	**81 872**	**86 148**	**85 341**	**85 614**

SOURCE: Europe.autonews.com/HIS Automotive forecast

SA'S NEW SUPERCAR SALES - DECEMBER 2014 TO NOVEMBER 2015

BRAND/MODEL	VOLUME
Audi R8	20
BMWi8*	112
Ferrari**	109
Jaguar F-Type	185
Maserati**	36
Nissan GTR	51
Porsche**	580
TOTAL SALES - 12 MONTHS	1 093

* BMW i8 volumes reflect sales over a 9-month period since launch.
** Ferrari, Maserati and Porsche reflect sales for multiple models. Of Porsche's 580 sports car sales, 260 are Porsche 911's.

SA'S NEW SUPERCAR SALES - DECEMBER 2014 TO NOVEMBER 2015

MONTH	MONTHLY NEW SUPERCAR SALES
Dec 2014	114
Jan 2015	116
Feb	87
Mar	90
Apr	105
May	98
Jun	112
Jul	84
Aug	78
Sep	71
Oct	62
Nov	76
TOTAL SALES - 12 MONTHS	1 093

SOURCE: Naamsa

and five Aston Martins every month. "The Aston Martin brand is performing exceptionally well in South Africa and we have grown our sales on a year-on-year basis," a company spokesperson tells *finweek*. That said, locals are unlikely to see an Aston Martin on a regular basis. Aston Martin is one of the smallest producers of luxury sports cars in the world, having resisted the temptations of mass production, and still insists on assembling each of its cars by hand, meaning that production is limited.

Porsche, however, has a firm grip on the local supercar market, with its volume selling 911 derivatives starting from a somewhat more affordable price point of around R1.3m.

"In terms of McLaren we continually achieve our targets set by the manufacturer and often surpass their expectations. We have no doubt this will continue and a steady growth can be expected for 2016," says Daytona.

Until recently, it would have cost R5m to be able to boast about being a McLaren owner. But aiming to dent markets like Porsche, Ferrari and Maserati, McLaren now has a more "attainable" offering: a mere R2.8m for their McLaren 570S.

Porsche, however, has a firm grip on the local supercar market, with its volume selling 911 derivatives starting from a somewhat more affordable price point of around R1.3m. For prancing horse fans, a price tag of around R3.7m will acquire them the entry-level Ferrari California T.

The economy now is less than dynamic and new supercar sales do appear to be under a bit of pressure (see tables). Based on National Association of Automobile Manufacturers of South Africa (NAAMSA) figures, 37 new Ferraris, 30 new Maseratis and 340 new Porsches (sports-only models) were sold in South Africa in the first half of 2013 for a total of 407 units for the three famous supercar brands alone. The first six months of 2015 reflect a slight drop in volume to 402 for the famous three made up of 52 Ferraris, 12 Maseratis and 338 Porsches. Yet that does not mean the affluent are not buying. The pre-owned market (not used please; it's infra dig for this market) for luxury sports cars is just as active. There is no shame in buying a pre-owned supercar, quite the opposite. Lean supercar production volumes create exclusivity and strong demand, so lengthy waiting lists are not uncommon, even for some pre-owned supercars.

Desire for status and prestige aside, it can also make financial sense to invest in a supercar. Unlike the depreciating ordinary vehicle, the values of these highly desirable machines can appreciate. This, and the fact that the uber-rich are more immune to economic downturns, it's unlikely this elite group of individuals will apply brakes to their supercar spending. ■

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A very exclusive club

It's not your traditional gentlemen's club. But like those exclusive clubs popularised by the English upper class, it has a lot to do with status and, ahem, wealth.

What sets this members-only private club apart from the traditional gentlemen's club is that it is not as much about gender or social status as it is about what you drive. This, you see, is a supercar club, the requirement for entry the ownership of a supercar.

And it can't be just any old supercar. Only those with qualifying supercars will find the doors to the IBV Supercar Club opening up to them. Supercars like Bugatti, Koenigsegg, Lamborghini, McLaren and Pagani and of course Aston Martin, Ferrari, Maserati and Porsche among them.

Growth in supercar ownership has given rise to supercar clubs and the local IBV Supercar Club already has a national membership of over 700 supercar owners. Clubs such as these offer those with a shared passion for supercars the opportunity to meet and network with likeminded individuals. And, as is often the case with exclusive clubs, there are added benefits as well.

CEO of IBV Supercar Club, Ashok Sewnarain, has watched the clientele of his supercar club grow during the past year. "Compared to five or six years ago there has definitely been a large number of people entering the luxury car or supercar market. The upper middle-class and high-net-worth individuals are really dominating this market".

If forecasts for this ultra-luxury market are anything to go by (see graph), supercar owner numbers and club memberships are set to grow. ■

By Lameez Omarjee

Smart things to do with your money in your 20s

You've just graduated and started working, and now you have access to a salary. What should you be doing with your newfound financial freedom? Experts share their tips on how you can be a good steward of your finances.

Apart from realising that you won't be raking in the big bucks immediately after graduating, being in your 20s is still a good time to start building your wealth. After entering the world of work, you will likely have access to a constant flow of income. But how can you dispense this income in a way that allows you to meet your financial commitments and still enjoy your life?

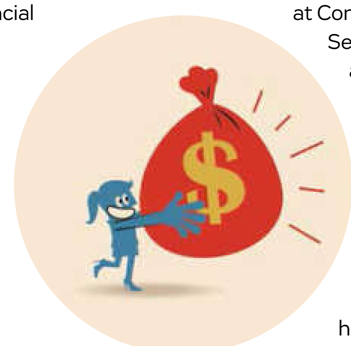
"Did I have money to do anything in my 20s?" asks Riaan Strydom, portfolio manager at PSG Wealth Port Elizabeth. A fair question given 20-somethings often find that the bulk of their income goes towards new expenses they inherit once they enter the working world. Once you've paid rent and living expenses, medical aid, car instalments and possibly the instalment on your student loan, what should you do with the remainder of your salary (if there's anything left)?

Financial advisers are unanimous in saying that saving tops the list of things to prioritise.

Even if you can't start big, at least start saving as early as possible, says Strydom. Once you start earning a salary, set a goal to allocate a portion of your salary towards your savings, and then adjust that as your salary increases. This is useful because in your 20s your salary increases are likely to grow faster than the rate of inflation, adds Karin Muller, head of growth market solutions at Sanlam Personal Finance.

Establishing a habit of "paying yourself first" becomes easier to do over time, says Muller. Candidate attorney Ildiko Gyarmati (24) uses this method as a savings tool and transfers a portion of her income to an investment account, she says. Unit trusts and tax-free savings accounts are also good savings vehicles for future goals, says Muller.

If you delay saving, it might become harder to start at a later stage once a need arises, says Desiré Engelbrecht, financial planner at Consolidated Financial Planning. Setting goals for yourself such as building up a deposit for a house, future travels, or furthering your education could help incentivise saving behaviour.



Once you start earning a salary, set a goal to allocate a portion of your salary towards savings, and then adjust that as your salary increases.

Priya Gopal (24), who has been working in the banking industry for the past two years, agrees and has been saving towards "major future expenses" such as a house, a possible wedding and international leisure travel. Gopal's saving habits means she has immediate access to funds in the case of emergency, she tells *finweek*.

Save to build up an emergency fund which is three to six times your salary, says Muller. Saving half a year's worth of money may seem like a lot, but "life happens" and you don't want to have to create debt when there's a crisis like a burst geyser or a car that needs fixing.

Saving early will also make it easier to achieve your retirement and investment goals, says Strydom. In your 20s you have time on your side, which means you can reap the benefits of compound interest, says Muller.

Someone who saves R1 000 every month from the age of 20 until the age of 30, and then leaves the investment to grow at an

Fast Five

1. Have a budget: This allows you to see what you are spending your money on and how much you are saving. Keeping track of your expenses will highlight if you are overspending and living beyond your means, says Strydom.

2. Cut costs: Once you identify where you have been overspending, prioritise your costs. One way could be to adopt a healthy lifestyle. Quitting smoking or going to the gym could bring down the premiums of your life cover, says Strydom.

3. Understand your employment benefits: Instead of blindly filling in forms at your new place of employment, ask questions and make sure you understand what you are agreeing to, says Muller. You are making important decisions about how your pension will be invested; this will determine your retirement outcome.

4. Get a financial adviser: A professional will give guidance on what you should prioritise and how to allocate your funds. Find a financial adviser you can trust and build a relationship that grows as you grow from a saver to an investor, says Strydom.

5. Educate yourself: Learn as much as you can, says Muller. Financial decisions are going to be with you throughout your working life, so make sure you educate yourself about them.

Angela de Loureiro (25) follows financial publications and does "lots of googling" to equip herself with financial know-how. Try subscribing to financial newsletters and financial literacy programmes available online.

Gallo Images/iStock

Someone who saves R1 000 every month from the age of 20 until the age of 30, and then leaves the investment to grow at an annual rate of 12% until the age of 60, will earn

R5m

more in returns than someone who starts saving and investing R1 000 monthly from the age of 30 until the age of 60, explains Strydom.

Karin Muller, head of growth market solutions at Sanlam Personal Finance.

Riaan Strydom, portfolio manager at PSG Wealth Port Elizabeth.

Desiré Engelbrecht, financial planner at Consolidated Financial Planning.

annual rate of 12% until the age of 60, will earn R5m more in returns than someone who starts saving and investing R1 000 monthly from the age of 30 until the age of 60, explains Strydom. This is without considering adjustments such as salary increases and bonuses.

Secondly, in your 20s risk planning is essential, given the risky behaviour of young people, says Strydom. "You have your whole life and career ahead of you. Your biggest asset is your ability to generate income for the rest of your life." You need to protect yourself against the risk of disability and injury, he says. Having risk cover is essential if something should happen where you can't continue providing for yourself and still have living expenses to cover, says Muller. "You are financially dependent on you."

Risk cover is also essential if you have other financial obligations, like family responsibilities. Consider life insurance only if you have dependents that need to be financially protected in the event of your death, says Muller.

When it comes to making big investments, such as purchasing a home, having a good credit record is useful to prove your creditworthiness. However, Strydom cautions that taking on debt requires responsibility and discipline. If you have a credit card, make sure it has a low credit limit and that you pay it off timeously.

Always remember when you buy something on credit, you are paying more for it than the price stated on the item due to interest rate charges, says Muller. Make sure to meet your payment obligations and do not delay payment. Don't spend money on something if you can't pay for it in cash, says Muller.

You shouldn't buy on credit if you don't believe you can make the payment at a later stage, says Engelbrecht. Pay more than what the minimum amount stipulates. Debit order contributions are also useful in building a credit record. Make sure you have sufficient funds for them. Also check your own credit record, which is accessible once a year, free of charge. ■

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on the money quiz & crossword

Congratulations to reader Hughie McLelland for winning the copy of *Wallop!* by Toni Younghusband. If you want to complete an online version of this quiz, it will be available on fin24.com/finweek on 25 January.

1 Which social media platform suffered a temporary worldwide outage on 19 January?
- Twitter
- Facebook
- Reddit

2 Where does the annual World Economic Forum meeting take place?
- Johannesburg
- Davos
- Washington, DC

3 Why are Jada Pinkett Smith and Spike Lee boycotting this year's Oscars?

4 **True or false?** Instant messaging service WhatsApp has announced that it will scrap its $1/year usage fee.

5 Who is the DA's mayoral candidate for Johannesburg?

6 Of which company is Carlos Brito the CEO?

7 Which multinational UK bank is considering selling its stakes in its African business?

8 **True or false?** According to the UN World Tourism Organization, world tourist numbers hit record highs in 2015.

9 In which country is the Samarco iron-ore mine situated?
- Australia
- Brazil
- Italy

10 **True or false?** Barry Roux will be **Gareth Cliff's** lead counsel in the case against M-Net.

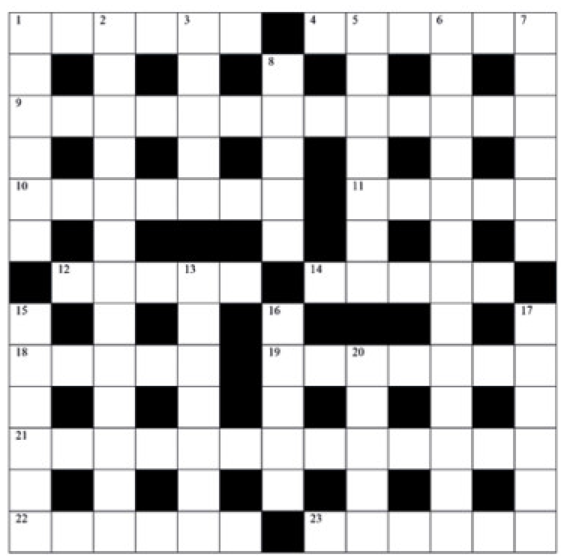
CRYPTIC CROSSWORD 616 JD

ACROSS

1 Represent 50% of the profit (6)
4 Serve tin pea soup as an appetiser (6)
9 Today cars run within schedule and can be regulated (13)
10 Heart of German city church (7)
11 Agreed Spain is pleasant (5)
12 Rascal to run away with Cockney lady (5)
14 Reportedly remained sober (5)
18 Protest being dead? (3-2)
19 Allow men time off from dubbing (7)
21 Conservative is not coming with you, we hear, or returning with us (13)
22 Difficult in court (6)
23 Exercise is followed by an infusion of health (6)

DOWN

1 Controls rents, we hear (6)
2 Minister in classified meeting with extremist network (4,9)
3 I object leaving platelayers sheets (5)
5 Well-informed sailor takes right direction (7)
6 Bit abrasive on being made to give reductions (13)
7 Side with the French in fifty-fifty situation (6)
8 One girl left nervous and pale (5)
13 Mike gets into terrible Russian transporter (7)
15 Decide how much is to be paid to tailor (6)
16 Power suits (5)
17 Devalue the French money in Japan (6)
20 Guy is from firm in Norway (5)



Solution to Crossword NO 615JD

ACROSS: 1 Administer; 7 & 22 The rot; 8 Portuguese; 11 Relieved; 12 Logo; 14 Nearly; 15 Dennis; 17 Lice; 18 Catacomb; 21 Back burner; 22 See 7; 23 Disorderly

DOWN: 1 Apparently; 2 Marble Arch; 3 Nouvelle; 4 Saucer; 5 Easy; 6 Who; 9 Downtowner; 10 Gooseberry; 13 Revalued; 16 Talk to; 19 Magi; 20 Wok

On margin

Black gold no more

With oil prices plummeting below $30 a barrel, its lowest level in 12 years, the UK's Independent compiled a list of tweets of things that are more expensive than a barrel of oil, including the actual barrel:

Patrick DeHaaN @GasBuddyGuy
A barrel of WTI crude is three times cheaper than a steel drum to put it in.

David Ingles @DavidInglesTV
So at $30/barrel, WTI [the US benchmark oil price] is now over 60 times cheaper than a bottle of sparkling water.
Perrier (per barrel) = $1 850.

SO1EO1 @GomoLeb
The way the oil price is going, by the end of this year it will be cheaper to buy a barrel of oil than a sack of maize.

CTV – Ian White @CTVIanWhite
WTI crude now trading at $29.59 a barrel, cheaper than a pair of pants at [US discount retailer] @Target.

Astute observations

A police captain is working with new trainees. He shows a photograph of a man to the first trainee. "This is your suspect," he says. "How do you identify him?"

The trainee replies. "Simple. He's only got one eye!"

"You idiot!" the captain scolds. "That's because you're looking at a picture of the side of his face!" He moves onto the second trainee, showing him the same photo. "This is your suspect," he says. "How do you identify him?"

The trainee responds: "That's an easy one! He's only got one ear!"

"You idiot!" the captain scolds. "I don't believe this. Can you really not tell when you're looking at the side of a man's face!?" He moves onto the third trainee, now very frustrated. "This is your suspect," he says. "How do you identify him?"

The third trainee is silent. After a moment of thought, he answers: "He wears contact lenses."

The officer is taken aback. He excuses himself and checks the records they have on file. Sure enough, the man does wear contact lenses. "That was amazing!" the captain tells the trainee. "How were you able to make such an astute observation?"

"It was obvious," says the trainee. "He can't wear glasses! He's only got one eye and one ear!"

"Before we discuss our programme of crushing the competition, screwing over the customers, exploiting the workforce, voting ourselves obscene salaries and share options... let's review agenda 6: Social Responsibility Programmes."

Verbatim

Chester Missing @chestermissing
From now on America, maybe Iran will be nicer if you stop saying Iran like it's a two-word sentence.

Tom Eaton @TomEatonSA
When I read FW de Klerk was naming human rights abusers I assumed he was spilling the beans on apartheid death squads. What was I thinking?

Vuyani Ngalwana SC @vngalwana
Yay! I now have "1994" followers! Hope it's nothing like the other 1994 – all gong and no dinner!

BUZZFEED COMPILED THE FOLLOWING LIST OF TWEETS ABOUT OFFICE LIFE:

Gracie Fabulous @MermaidintheUSA
I did squats today. Mostly because I was hiding from a co-worker.

Sweet Slips @Ndeshi_M
I told all my colleagues at work that I have a twin so that when I see them in public I don't have to talk to them.

Underchilde @underchilde
Starting a blog that's just reviews of the food I steal out of the fridge at work.

Mrs Joshua Homme @FussySaffa
Adorable idea. Colleagues have been writing names on their food in the office fridge. I am currently eating a yoghurt called Debbie.

Mark @TheCatWhisperer
The problem with teaching a man to fish is that eventually somebody will microwave that fish in the work break room.

"We will have to repent in this generation not merely for the hateful words and actions of the bad people but for the appalling silence of the good people."
– Martin Luther King Jr, American Baptist minister, activist, humanitarian and leader in the American Civil Rights Movement (1929 – 1968)